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ITS

FINANCIAL ORIGIN

AND

REMEDY.

WITH THE PROPOSAL OF A COMMON PRINCIPLE OF UNION
AMONGST THE PROMOTERS OF AN

EQUITABLE ADJUSTMENT OF THE CURRENCY;

AND

A VINDICATION OF THE RAILWAYS.

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RES POTIÙS QUÀM AUCTOR.

"In order that trade may be successfully carried on, it is necessary that a price be fixed on the use of specie (money); but this price should be very inconsiderable."
—MONTESQUIEU.

LONDON:

LONGMAN, BROWN, GREEN, AND CO.

1848.

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PREFACE.

Without pretension to literary merit in any degree, the following practical *observations are designed to illustrate, in connection with the subject proposed in the* Title *of the volume, the* progress *and* position *of the* Currency Question; *relatively to the series of* Experiments *upon the present* Laws; *to the views of the* numerous *but* divided *body of their* Reformers; *and to the* condition *of the* Country,—*as suffering and depressed through the great* Depreciation *of its* Property *and* Contraction *of its* Industry: *naturally incident to a* sudden *and* great Advance *in the* Value *of* Money.

It may be necessary to the proper application of several of the remarks, to apprise the reader that the contents of the volume, substantially, had been prepared before the close of last year; but that advantage has since been taken of events which have occurred during the necessarily protracted period in which the work has been in the press, to make several additions to the original text.

MAY, 1848.

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THE

NATIONAL DISTRESS:

ITS

FINANCIAL ORIGIN, &c.

Section I.

THE RATE OF INTEREST CONSIDERED AS A TAX AND RESTRAINT UPON INDUSTRY.

The *interest* on capital employed is one of the *charges* on *Production;* and, in so far as maintained by legislation, it becomes simply a *tax* on *Industry*. Modern legislation has been much directed to the reduction generally of duties on the raw materials of manufactures, in order that the cost of production, and the prices to the consumer being reduced, extended employment may be found for the population, by means of a proportionately expanded consumption of, and demand for, all productions,—the necessary consequence of *cheapness*.

The *demand* for *Labour* is regulated by the *profits* enjoyed or anticipated by those who employ it. Wages for subsistence in the labourer, profit for subsistence or accumulation in the master, are indeed the sole actuating motives to that general industry, which is the life of commerce, and the main element of national wealth.

The profits of industry may be *individual*, and restricted to the few; or *national*, that is, derived and enjoyed by the many. Great profits of the few, derived from high prices, are prejudicial, in so far as they are made at the expense of the many: and yet the largest profits of the few are

compatible with the greatest advantage to the many; so long as the profits accrue, not from *high prices*, but from the *greater quantity* of a commodity sold and consumed, as the consequence of *low* prices. For example: A calico manufacturer may make, and does make, a greater profit by selling 1000 pieces of cloth, at a net profit of 6d. per piece, than by selling only 500 pieces, at a net profit of 10d. per piece. At 6d., the profit is £25; at 10d. per piece, it is only £20 16s. 8d., or 17 per cent. less.

A farmer, again, will make a larger profit by the sale of 1000 quarters of wheat, at a net profit of 5s. per quarter, than by the sale of only 500 at 9s. per quarter profit.

A railway company will derive a larger revenue from the conveyance of 100,000 passengers, at a net profit of 6d. per head, than on 10,000 at a profit of 4s. per head.

And the Bank of England will derive a greater profit from a circulation of £200,000 of its notes lent out at 2 per cent interest, than it would from a circulation of only £100,000 at 3½ per cent.

In all these instances the profits of the producer and the gain of the public mutually augment as the price or rate diminishes; and the expansion of the use or consumption proceeds in an equal, indeed in a far greater, ratio.

The lower, therefore, the charges or *cost* of production, the greater the producer's profit; the lower, consequently, the *price* at which he can afford to sell, the greater the *use* or *consumption*, and consequently the greater the *employment* of the population which is required to maintain the increased production. It is obvious, however, that a diminution of the cost of production, which should be effected through lowering the rate of *wages* to the labourer, would conduce only to *individual*, not to national, wealth; because, with a reduction of wages, there must be a curtailment of the means of *consumption*, and the profits of the *few* would thus be overbalanced by the losses of the *many*.

Now, on a minute investigation, it will be found that of all the charges and taxes which go to swell the cost of production and the price to the consumer, there is probably none which bears so heavily, because it bears nationally, on the employment of the population, as a high rate of interest does. This goes directly to diminish the gains, and, consequently, the extent, of production, and the whole basis of low prices.

For example: take the instance of a large cotton spinner, who has borrowed on his factory and machinery £50,000, the interest of which, at (we will suppose) 6 per cent. per annum, is £3,000. If the net average income from the factory, including interest, be £5,000 per annum, and the interest to be deducted be £3,000, the charge for interest is 60 per cent. of his profits.

In the same way, the cost of the farmer's and of the railway company's capital, as well as the interest allowed by the banker and bill broker on deposits and money at call, must always be the chief deduction from their net income. Their respective profits would, of course, increase as this charge became reduced. If reduced to 2 per cent. per annum, that of the manufacturer would increase by £2,000, as he would now deduct, for interest, from his £5,000 per annum only £1,000 instead of £3,000 as before. The farmer's, railway company's, the banker's, and broker's profit would increase in the same proportion: that is, it would be doubled.* This increased scale of profits would become a premium on the erection of factories, the construction of railways, the improvement of land, and the opening of new banks; and so would proportionately augment the competition to supply the public with the

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* The result is practically the same, supposing all these parties to use no capital but their own. If the rate of interest on capital be 6 per cent., the same parties could obtain that rate out of business; and, therefore, it is still a direct charge on production.

produce of the factory and the farm, with railways and banking accommodation; production would be temporarily in excess of demand; an increased ratio of supply could result only in lower prices to the public; but, conducing in time as certainly to increased use or consumption, must tend eventually to the greater profit of the producer.

It will obviously result from this argument, that a high rate of interest, contrary to an opinion which lays at the foundation of the existing system of currency, tends to the establishment of a high range of general prices; as, on the other hand, a moderate rate of interest tends directly to the lowest range of prices: and upon this simple and obvious rule, that the high rate discourages, whilst the low rate fosters, production. The high rate suddenly set up enforces temporarily low prices, which only check production; a permanently low rate of interest cheapens, and therefore stimulates, production: low prices cannot co-exist permanently with deficient production, but are the inevitable consequences of an abundant one. A high rate of interest therefore involves a low rate of wages: for if money be scarce, employment fails; labour becomes redundant, and that which is the more plentiful will be soonest the cheaper. A high rate of interest is thus the heaviest burden the labouring population have to bear. It becomes also a national burden, because the labouring population are beyond all comparison the largest class of consumers, and their prosperity is the main spring of national advancement.

It is indeed most melancholy to reflect upon the effects, immediate and permanent, of a sudden great rise in the rate of interest as the consequence of a contraction of the currency. When monied people can obtain 8 and 10 per cent., those works which depend on mortgages at 4 and 5 per cent. interest for a portion of the outlay upon them,—such as dwelling-houses, warehouses, places of worship, public works and buildings,—are suspended in a partially finished state, to

the great loss of interest on the outlay so far incurred; the deterioration of the property by its being left in an unfinished state, and the unceremonious dismissal, upon a few days' notice, of thousands upon thousands of all sorts of workmen throughout the kingdom, who must beg, or obtain parish relief, or starve, until the rate of interest has fallen again sufficiently low; by which time many of the projectors of the works, unable to sustain the depreciation and loss, are ruined; and the works, in many instances, totally abandoned and sacrificed.

What has lately been the condition of the labouring population? The number of hands discharged from the cotton factories seems alone to have been reported. It is necessary to multiply this return by the numbers from the other great staple manufactures of Yorkshire, Staffordshire, Wales and Scotland; the number of those unemployed also as carpenters, masons, bricklayers, smiths, cabinet makers, painters, glaziers, and workmen of every description in every town and village in the kingdom, with the number of families dependent on the weekly wages of employment. Then compare the year 1847, in all these particulars, with any year in which the rate of interest has been low, and say whether a high rate of interest be not a proportionately oppressive burden on the industrious classes, and consequently upon a nation, whose wealth is derived from industry.

Had interest never been below ten per cent. (for illustration), where had been the motive to construct the Manchester and Liverpool, the London and Birmingham, and the Grand Junction Railways? where the motive to erect those hundreds of thousands of dwelling-houses which have been reared upon the probability of a return of 6 per cent.? where the motive to improve land, to prosecute manufactures, and to build ships, if the rate of interest had exceeded, by a large per centage, the whole prospective returns? That motive would increase by every stage in the permanent fall

of interest; but at a permanent ten per cent. rate, the motive could only exist by an increase in the scale of the returns. This could be derived only from a double price for every production, or a still lower rate of wages to the labourer. The interest of money is thus a tax which pursues every thing; is a charge added to the cost of every production; and as certainly therefore tends to establish a high range of prices as it is certain that no field of labour is cultivated except from the motive of gain: the certainty of being compensated for the contingent risks of such employment of capital by a return proportionately more than common interest of money.

Whatever may be the fate of the currency agitation, it is essential that every sound law of political economy be clearly recognised. Such a law is obviously that which asserts the sure foundation for a permanently low scale of general prices to be not a *high*, but the most moderate, rate of interest; that the manufacturing country in which the lowest rate shall be safely established, must become the emporium of the world, and must contain the greatest number of well employed, prosperous, and wealthy inhabitants.

If such, then, be the fair conclusion from the facts and principles to which reference has just been made, how difficult must it be to estimate adequately the amount of loss and privation which have periodically been visited upon the country by a commercial system which assumes the diametrically opposite conclusion to be the true one, namely, that dear money conduces permanently to cheap commodities, because a fall of general prices results, for the time, from a sudden contraction of the supply, and a proportionate advance in the value, of money.

Section II.

OF THE PRESENT GENERAL DEPRECIATION OF PROPERTY.

Were any dozen credible persons, engaged in as many different commercial pursuits, to be severally examined as to the *present* value, compared with the value twelve months ago, of the several descriptions of property appertaining to the business of each; were the present market value of the assets of bankrupts' estates to be compared with their market value, or cost, on the 1st of January, 1847; were the assets, which on the 1st of January, 1848, would appear in the respective balance sheets of the solvent houses, who in 1847 conducted the business of the country, to be compared with the same assets on the 1st January, 1847, taking only the market value of the property, commercial and private, at both periods; or were every person for himself, taking sufficient interest in the enquiry, to estimate the amount of depreciation of each specific kind of property with which he is conversant; it is not probable that the average of these several estimates would be less than 20 per cent, nor that the average depreciation of property in general, during the preceding twelve months, would show any lower per centage, whilst over a very large proportion it would not be stated at under 30 per cent.

Few documents, indeed, would be more useful to the Parliamentary Committee appointed to inquire into the present commercial distress, than an appraisement, under authority of the Legislature, by competent agents in each county, of the value, from actual sales where such have been made, of each description of property, during the week or month ending on the 25th October, 1847, and the corresponding month or week of 1846; commencing with the public funds, railway, mining, banking, and assurance

companies' stocks; estates, farms, building land, and house property; ships, warehouses, factories, machinery, and other fixed property: then passing through the several species of floating capital, as produce and manufactures; noting each instance where increased *supply* tended to depreciation, as distinguished from a general cause affecting all property alike, through the suspension of the usual demand.

Taking for a standard the public funds as being the highest class of property,* because the most certain as to its security and annuity, and not being liable, like other property, to so extreme an enhancement on the one hand, nor to so extreme a depression on the other; and allowing something for the much greater depreciation of property susceptible of wider fluctuations in value; it does not seem probable that a national appraisement could exhibit any less average depreciation than 20 per cent. of the aggregate national capital; nor need we suppose that our assuming such as an average estimate will be fairly taxed with exaggeration.

The enquiry which now naturally follows is, as to the aggregate value of the property to which this depreciation is applicable. If, reducing the valuations of some political economists and statists, we take this estimate of property on the aggregate at 4,000 millions sterling; an analysis of the returns on which the present income and property tax is based, will sufficiently justify such an estimate for the present illustration.

A national appraisement, then, which should show the average depreciation within the period named to be 20 per

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* *Market Quotations, January 1st.*

	1847.	1848.	*Depreciation.*
Consols, 3 per cent.	94½	85	or 10 per cent.;
(On the 25th Oct., 1847, the price of Consols had fallen to 79.)			
London and North Western Railway Stock, for £100 paid up	£196	£148	„ 25 per cent.
Great Western, for £85	£130	£94	„ 58 per cent.
Edinburgh and Glasgow, for £50	£77	£44	„ 43 per cent.

cent., points to no less a sum than *eight hundred millions* sterling, as the difference in the market value of so much property, within so short a period as twelve months: an extent of depreciation truly incredible, were it fortunately less universal, less palpable, or less capable of demonstration from daily experience.

If multitudes have been compelled to sacrifice their property, as in the majority of instances is publicly known to have been the case, at a depreciation of even 30 to 40 per cent.; if the fate of other multitudes hang upon the distant probability of the general recovery of prices; and if the whole nation, the solvent equally with the insolvent portion of it, be compelled, by a true market valuation, to reduce the estimate of their property and capital by 20 per cent., how frightful the extent and consequences of the national loss sustained!

An evil of this magnitude, the ramifications of which must extend not only throughout the United Kingdom, but to every part of the world, is an effect for which there must be an adequate cause; and the inquiry into that cause has now to be followed up by an examination first of the practical meaning of the term *depreciation* as just applied to the national property; and this investigation must lead us in the next place to the definition of another commercial term, namely—that of *Capital.*

Section III.

OF CAPITAL.

By *Capital* is to be understood property of every kind, which has a market price or value. *Fixed* capital is considered to comprehend that description of property which yields to the owner only the annual rental: *floating* capital, that which yields to the owner, once or more during the year, the whole sum invested. Thus, a farm is fixed, the rental and produce are floating, capital. The sum invested in the purchase of the farm is fixed—that is, it does not return again to the purchaser until he resells: the sum invested by the purchaser in stock, seed, and labour, is floating capital—that is, it returns again to him within the year. The same distinction exists between the cotton factory and its fibrous product; a dwelling-house and its rent; a ship and her freight; a railway and its traffic; the national debt and its paid annuity; the dairy cow and her milk; the cab and its fare.

Now, what every owner of property considers himself to be *worth* is estimated, not by the bulk or quantity of such property in his possession, but by its market value. The higher the market price, when estimating his estate and means, the greater his capital. The proof of this to himself, and the only proof, is, that his property is at his option at once convertible into so much money or market value. The lower the price, therefore, the smaller his wealth or capital. The aggregate capital of the country, measured by its individual proprietors according to the same rule, is just so many items of fixed and floating property multiplied by the market price of each respectively. When general prices have been steady for a number of years, this market

value is for the most part the actual *cost* to the owner of the property. A fall of prices, therefore, is temporarily or permanently, as the case may be, so much actual *loss*.

The holders of the national debt, for example, must always estimate their capital, not by the quantity they hold, but by the market value, of consols. A rapid reduction in the market price from 101 to 79, or 22 per cent. on some 800 millions sterling, is a loss, not of so much stock, but of capital. Every banker, for instance, who had invested his surplus capital temporarily in consols, at 101, and had kept it there invested until the price fell to 79 in October last, would then have diminished his capital by so much, whether he sold at that price or not; and at the very time, too, when he most required the larger capital. Every capitalist who, when the bill brokers would not receive his money on loan at one per cent., had invested it in consols at 101, and still holds it there, has now so much less capital to lend to the public through the same parties. But the difference is simply in the value, not in the quantity, of the property, and that difference is a loss of so much capital. The capital of the Bank of England (that is, the 14 millions of securities in the Issue department) was worth that sum when the Act of 1844 passed. In October last, when consols were at 79, the same capital could only be worth about £11,000,000.

Again: The proprietors of railway stocks who invested capital in those securities when the market price was, on the average, 40 per cent higher than at present, have sustained a loss not of so much real property, but of value or capital. How many bankers and merchants are in this position, who invested what, at the time of investment, was to them really surplus unprofitable capital; but who, from the recent pressure of the times, have since been obliged to realise the stock at the depreciation; and if not under that necessity, are still obliged to consider themselves poorer by so much;

that is, their capital, as bankers or merchants, is to that extent contracted for all purposes.

The market price of the farmers' stocks of wheat, which, a few months previously had been at only sixty shillings per quarter, was, in May last, at six pounds per quarter, and all other agricultural produce had risen in nearly the same proportion: the farmer would, therefore, estimate his wealth at these two periods, not by the quantity, but by the value of his produce. In many instances, indeed, a smaller comparative crop was the greater capital. The cereal produce of British agriculture has been estimated to yield annually 280 millions sterling.* There must, therefore, have been a considerable period of the year, between September, 1846, and September, 1847, when farmers as a body estimated their wealth or capital by at least one to two hundred millions more than they did recently before, or do now.

Take another example: A stock of about 400,000 bales of cotton in Liverpool, early in September last, constituted, at the average price of £12 per bale, a capital of £4,800,000. At the subsequent depreciation of £6 per bale the same stock was worth only £2,400,000; the holders, therefore, have had £2,400,000 less of capital at command. The fact is the same whether the loss be realized by a sale or not. If the owners have paid for the cotton, their separate estates are reduced by so much: if they have yet to pay for it out of funds lying at their bankers, the deposits of such bankers will be reduced by such a sum. If their funds have been invested in other property, the property must be sold, or the cotton must be sold, to effect the payment for the latter; but the loss is not one of property, but of capital; and

* Mr. M'Culloch, in his Statistics of the British Empire, states the average yield at about £6 per acre, which,—the number of cultivated acres being 46,522,970,—is equivalent to £279,137,820. This is exclusive of the enormous annual sum of the produce of the dairy, the poultry yard, and the slaughtered herds of cattle, swine, and sheep.

every holder, whether on credit or not ; and every banker, whether a holder of the credit bill which cannot in consequence be paid in full, or of deposits to be withdrawn, must feel it to be so. So with depreciated stocks of sugar, tea, grain, and other produce in every port of the kingdom, and with property generally.

Again : The popular idea of *capital* is capital in money ; that is, the sum which every money-capitalist has deposited with his banker or broker at call. The deposits of merchants, manufacturers, tradesmen, &c., are of this class. The gross amount of these deposits in Scotland alone is £30,000,000. For the whole kingdom they cannot probably on the average be less than £300,000,000. These, however, are totally distinct from the bank circulation or currency ; the latter being only about £3,000,000 in Scot land, and about £33,000,000 for the kingdom.

Now this money capital also fluctuates with the market price of all other capital, diminishing in the ratio of the fall of general values, which indeed are its only source, and which it chiefly represents.

The same rule is applicable to capital in every shape ; namely, that *capital* is neither more nor less than the *market price* multiplied into the *quantity* of general property. A rise of the aggregate price or value is the practical increase, and depreciation the practical loss, of capital. A fall of price, when confined to one article of commerce, is a reduction of, as an advance of price would be an addition to, the captital in that particular branch of trade. The discredit and derangement from such restricted depreciation would be proportionately limited also : as in the case of the fall of the price of wheat last summer. But a general fall of prices involves the multiplication of this discredit and derangement over every branch of trade and every commercial interest.

The market price of property, as the standard of capital,

may thus be a very temporary and fluctuating one. That is not the question, however. The question is, is there any other measure of capital? It must be evident there is not, nor can be.

It does not alter the case to say that the loss of capital falls only on those who are obliged to realise property at the depreciation, because those who do not so realise, will, by holding on to their property, recover the depreciation; and that the holders of railway or Government stocks, for example, who purchased them at 20 per cent. higher prices, have not lost the capital dissipated by such depreciation, because the prices will eventually advance again. For, in what respect is the position of the holders of this property for an advance under such circumstances, different from that of any speculator who should now invest in these stocks with the same prospect of advance? They are both simply speculators for an advance, which may or may not be realised. They differ only in this respect, that the holders who had unfortunately invested at the high price have lost their capital to the extent of the fall of price: that any advance which may occur will only be so much in reduction of such loss, whereas it is all gain to the speculator who enters the market at the low price. Is it not evident that the advance anticipated is purely *speculative,* whilst the loss only is actual and *certain;* inasmuch as the property, if valued for any purpose, such as for taking stock, or for division by will, is convertible only into so much money as its market price represents; and is it not the fact that the means of such holders during the fall of prices are cramped to the extent of such depreciation until this predicted and speculative advance shall be realised? Is not every tradesman and merchant *compelled* to value his stock, not at what he thinks it *may be* worth by and bye, but at what it *is now* worth? Indeed, were it always *certain* that a great fall of prices would be followed by a proportionate rise, how could

prices remain so long depressed? The natural effect of such a conviction would be a rush to invest before such advance should take place. And such must now have been the case, were not the capital of the country, in the mean time, practically destroyed, as we have stated it to be, by the general extent of the calamitous depreciation referred to.

The practical meaning, then, of the commercial term "depreciation," is not that merely ideal thing which some would inaptly represent it to be. Applied on a scale of 20 per cent. to the aggregate property of the kingdom, even at its lowest possible valuation, it means that the whole country, looking first at the bulk, and then at the market value of its property, feels itself *poorer* than it was twelve months before by some 500 to 1000 millions sterling for all the uses of capital; poorer for the payment of its current obligations; poorer equally for starting new enterprises, and for maintaining its former scale of industry; and that in this dilapidated condition of wasted capital and withered means the country must remain until property recovers its cost and proper value.

With so deep a wound in the most vital part, we may inquire, how is trade to revive? With the public knowledge of the extent to which the capital has been reduced, how can credit return? With the decay of credit on this general scale, in a country whose industry depends upon credit, and whose great wealth has naturally grown out of the proved stability of its commercial credit, how shall commerce suddenly revive, whilst credit can only be recovered with capital during a slow course of years? This grand destruction of capital, although the work, it may be, of only six months, can scarcely be repaired in as many years. The time which an immense structure would occupy in falling to ruins, after the abstraction of its foundations, bears no proportion to the time which must in the nature of things be consumed ere it can be reared again upon the original scale.

Of the almost periodical calamities familiarly remembered as the money panics of the years 1826, 1836, 1839, and 1847, whatever be their *causes*, this depreciation of property is obviously the grand *effect* to be contemplated; it is the generic or radical evil of which the natural fruits are an universal loss of working capital throughout an empire, and, by necessary sympathy, throughout the world; followed by proportionate insolvency, discredit, and suspension of enterprise, industry, and employment.

Upon reflecting minds, the reverses of fortune incident to these vicissitudes, have undoubtedly a useful moral effect. As a political calamity, however, a financial convulsion like the present is only to be regarded as the most severe of national visitations; and happy will it be for that country which shall escape a social revolution, such as, under these circumstances, is ever menaced from an unemployed, starving, and desperate populace.

Nothing, therefore, can be more appropriate than the proposed public inquiry into the natural or political causes of a monetary crisis. It is not possible that such an investigation should be too searching in its details; nor can a hasty, superficial, and merely formal inquiry be too much deprecated on behalf of the country.

The observations and suggestions attempted in these pages are offered as an humble contribution to abler essays at elucidation; and, at this stage, it will be sufficient to remark that of each of the commercial panics adverted to, the main features and generally alleged causes have been varied in almost every respect but one,—which has been common to all of them,—namely, a violent contraction of the currency, and a quadrupled rate of interest.

Section IV.

OF THE CAUSES GENERALLY WHICH AFFECT THE VALUE OF PROPERTY.

The intrinsic value of property, be it produce, a railway, or gold, is simply the cost of the labour directly or indirectly expended in making, producing, or procuring it. The practical value, that is, the market price of *floating* property, depends on three circumstances together:—the quantity of such property on sale, or the *supply;* the quantity required at the time for use, or the *demand;* and the value of that for which every thing must be exchanged,—money, or *the rate of interest.* The value of *fixed* property depends upon the rate of the annuity it returns upon the capital invested, together with the rate of interest on that money with which the property is purchasable.

The first of these circumstances, *supply*, in so far as respects the produce of agriculture, foreign or domestic, depends *temporarily* on the seasons; but, *primarily*, and this with regard to all property, on the profit to the producer or procurer: that is, on the difference between the cost of producing or procuring, and the market price. An increase of price on the one hand, or a diminution of the cost of production on the other, tends equally to the same stimulant to supply,—*profit.*

Demand depends, temporarily, on commercial calculation, or speculation as to the prospect of supply and demand; but, primarily, on the means of consumption in the population; which again depend on the aggregate wages and income of industry and trade: the larger the population, if employed, the larger the aggregate of the wages earned and of the profits gained, the larger will be the national expenditure; that is, the demand for all productions.

The *value or interest of money* depends, *primarily*, upon

the available quantity of *currency* in the country; which again depends, under the act of 1844, upon the quantity of bullion in the Bank of England; as it previously did on that, and on the *discretion* of the Bank; but, temporarily, the dependance of the rate of interest is upon the extent of speculation amongst capitalists, as to any probable scarcity or abundance of money.

A variation in the value of any commodity can therefore be effected only by a change, actual or prospective, in one or more of these three circumstances: that is, in the supply of such commodity, in the demand for it, or in the value of money. Were it possible, for example, to maintain all these circumstances permanently the same with regard to the article of cotton, the price of cotton must be invariable also: were it again feasible to maintain, without probability of change, the annual net revenue of a railway at 5 per cent. per annum, and the interest of money permanently at 5 per cent. per annum, the market value of £100 of the stock must be always invariably the same. But let either the proportion of supply and demand, or the value of money with regard to cotton be disturbed; let either the net income of the railway or the value of money vary, the prices both of cotton and of the railway-stock will vary also.

Let us now try, by these practical tests, to account for the present general depreciation of property.

What has been the excess of supply applicable to *all* kinds of produce and manufactures? or, what cause of depreciation has existed in the general suspension of consumption and demand?

It cannot be said that produce, in the aggregate, has been redundant. Of bread-stuffs, the domestic deficiency has been unexampled. The same may be said of the chief article of foreign produce—cotton. Yet both these articles have entailed on the trading community overwhelming losses. It will probably be urged, with regard to bread-stuffs, that the extent of the foreign import, almost equally

unparalleled as the domestic scarcity, was an over-supply: yet a rising corn-market, subsequently to that import, in spite of an extraordinary pressure for money, had been consistent with so enormous an import; whilst the article of cotton fell 40 per cent. in value during the autumn rise of corn, without any material change in the actual or prospective supply.

It will probably be at once conceded, that if a *general* cause of the general depreciation must be found in either, a universal over-supply of, or a universal failure of demand for, commodities, it must rather be in the latter, than in the former, variation. The failure of demand, it will be admitted, has been almost universal. It is also a natural result of the failure of wages and of the profits of business, that is, of the *means* of consumption; corresponding with the general suspension of trade and employment. The universal over-supply of commodities, depending on every climate of the globe, is almost an impossibility. The universal failure of demand can only co-exist with some extraordinary circumstance of general application. The latter has occurred at equally memorable periods before, but probably never except in conjunction with the third regulator of market values, namely, a great advance in the interest value of money, consequent upon the forcible contraction of the currency.

In submitting, then, the present depreciation of property to the three only tests of the causes of a change in general values, we seem warranted in all fairness, and indeed compelled, to refer it to the equally general failure of the *demand* for commodities; which, for the present, may be assumed to arise from that which chiefly governs such demand, namely, a concurrent great fluctuation in the value of money; a cause, the operation of which it will now devolve upon us, as the next stage in this inquiry, more fully to illustrate and establish.

Section V.

THE RATE OF INTEREST CONSIDERED AS THE PRACTICAL STANDARD OF VALUES GENERALLY.

By a *standard* is commonly understood some certain and invariable criterion, regulator or test, of that which is compared with it. Greenwich Time, for example, is now such a standard for regulating railway travelling time. It is obviously as necessary that this standard should be true and invariable as that the yard measure or the Winchester bushel should be so. Capricious variations of the time at Greenwich, of the length of the yard, and of the size of the bushel, must produce endless confusion in trade and travelling: so in that which, on comparison, ascertains and regulates the value of property, arbitrary and capricious variations must be attended with perplexity and confusion, as the necessary consequences of arbitrary and uncertain values. It is, nevertheless, true, that so long as the value of property rests upon the value of money, as its universal foundation, or, as the active regulator and standard of its value, there must be, with every disturbance of that foundation and standard, a corresponding disturbance of the whole system of values.

A great rise in the rate of interest, the effect of a real or apprehended scarcity of money, as we now proceed to show, acts upon *fixed* property directly, by effecting a change in its value *essentially;* upon produce, manufactures, and other *floating* property it acts indirectly, by suspending the usual demand; and this also eventually reacts upon fixed property, by depreciating its produce. Thus, an extended creation of fixed capital, in the shape of building, mining, road, canal, and railway works, or the improvement of waste land, depends primarily for its motive upon the rate of in-

terest: whenever that rate exceeds the prospective annual return of the capital so employed, it becomes unprofitable to borrow or employ money in that way. Its employment is therefore checked, and, proportionately therewith the employment and wages of the population, upon which depends the demand for all productions, are suspended also. Thus, with regard to a portion of the national fixed property, 3 per cent. consols, for example: If the standard, or the rate of interest of money, were unchangeably 3 per cent. per annum, the true essential value of £100 of 3 per cent. consols, would be permanently £100 sterling; with interest at 2 per cent. per annum, £100 of such annuity would be worth £133 6s. 8d.; and were it possible to maintain an invariable rate of 9 per cent. interest per annum, the true and permanent value of £100 of 3 per cent. consols would be only £33 6s. 8d. That is—if the owner of £1000 could permanently lend out that sum at 9 per cent. on security equal to that of consols, his annual income therefrom would be £90. To obtain the same income from 3 per cent. consols, he must hold £3000 of the latter; therefore, £100 of the 3 per cent. consols is exactly equal to only £33 6s. 8d. of money; and the interest of money solely regulates the *essential* value of that property.

The obvious reason, it will be observed, why the price of Consols neither rises so high when interest is at 2 per cent., nor falls so low when interest is at 9 per cent., is the speculative probability, founded on past experience, that interest will not long continue, either so much below, or so much above, its average rate. Otherwise, the rate of annuity being certain, and the rate of interest on the money with which the annuity is purchaseable being given, the value of the annuity is absolutely fixed and certain also.

Again; An estate or property yielding a net rental of 5 per cent. per annum, if compared with the same standard, would be worth, were money permanently at 2½ per cent.,

for every £100 invested, £200; and only £50 for every £100 invested, with money at 10 per cent. The value of general fixed property, it may be observed, often rises and falls in proportion to the rate of interest more nearly than consols do, the annuity of the latter being certain, and of the former uncertain, or probable only; depending on the use, or the scale of consumption of the produce, of fixed property, which fluctuates with the state of trade, and this also with the value of money. Thus, the essential value of fixed property is necessarily regulated by the interest value of money, as its standard. The rule applies equally to the value of a farm, a dwelling-house, a cotton factory, a ship, a mercantile business, a turnpike road, or a railway. The value of each must always depend upon the value of the money invested, or with which it has to be purchased.

As a further illustration, let the value of money be 3 per cent. and the aggregate value of the entire national property, estimated by an average net revenue of 3 per cent., be assumed to be 6000 millions sterling; the permanent advance of interest to 9 per cent. per annum, would essentially reduce this dependent aggregate value by 4,000 millions sterling; and, with the ordinary prospect of interest falling again, the depreciation, calculated from actual sales of each description of property, during the prevalence of such high interest and scarcity of money, would probably be about 1,500 to 2,000 millions, or 20 to 30 per cent. of the whole.

This, of course, is supposing the net annual revenue of each kind of property to be unchanged, that is, to be all the while 3 per cent., and the variation to be solely in the standard of value. The change here is not in the condition of the property, but simply in the rate of interest. Just, as if, when all the railway clocks had been set to Greenwich time, the latter should be put forward by an hour, the

variation would be in the regulator, not in the clocks; or, as if a piece of cloth, containing 30 yards when measured by a yard of 36 inches, should be found to contain only 22 yards when measured by an altered yard of 48 inches: the actual quantity of cloth would be the same; the variation would be solely in the measure; yet the loss would be real to the owner, who had bought the piece of cloth by the short yard and was compelled to sell it by the long one.

For, if a trader purchase goods in January, of the value of £100, and for which he pays 100 sovereigns, money being then at 3 per cent., but for which, on re-selling them in April, he can get only 70 sovereigns, because from scarcity money has risen to 9 per cent., he is clearly buying by short, and selling by long measure; and as all property, being regulated by the same standard, if held or purchased in January, and held or resold in April, would be subject to a proportionate reduction of value, the loss realised, or estimated for any purpose, must be general too; that is, all who held or bought by the January measure, and were compelled to sell or value by the April measure, must practically realise this loss,—the result of a simple enhancement of the standard of value.

The interest of money being then the only practical standard of general values, if that standard itself have been 2½ per cent. in January, and 10 per cent. in April; at five per cent. in June and 12 per cent. again in October; being 400 per cent.* dearer at one time than at another, and within so short a space,—the value of property falling with the diminished quantity and increased value of money,—it is

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* That is to say, if £1 be paid for the loan of £100 during the first six months, and £5 for the same during the last six months of the year, the use to the borrower costs 400 per cent. more for the one period than for the other; and if the profits of the borrower's business be only six per cent. per annum, they are all absorbed by the higher rate of interest.

not difficult, from this cause alone, to conceive something of the disorganization, confusion, and blighting of trade, as well as of the extent to which real capital must have been annihilated, during the past year.

For such political and physical evils as those under which the labouring population and the country generally now suffer so many privations, an adequate cause seems certainly found—even were no other apparent—in the simple change from abundance to scarcity of currency, from a low to a high rate of interest. This is, indeed, that practical standard of value, which, however capricious it unfortunately is, still holds universal and absolute sway over property, industry, and commerce. However necessary an evil it may be considered, it cannot be deemed a trivial one. But should it admit of remedy, one would suppose it to be the first in its claims upon public and legislative attention. If it do not admit of remedy, *then only* would it appear wise and decorous in the country to submit to it with composure. But it surely is not less the interest of all classes to see that such a rule of commercial economy be fairly and fully established, on the most logical and appropriate evidence, before the conclusion be irrevocably adopted, that so formidable an evil is, in the nature of things, without remedy. To elucidate farther this inquiry it will be needful, as the next step in our progress, to ascertain clearly, and to bear in mind constantly, the natural distinction between *currency* and *capital.*

Section VI.

OF CURRENCY, AS DISTINCT FROM CAPITAL, AND OF THE MONETARY POWER OF EACH GIVEN PORTION THEREOF.

The essential distinction between Currency and Capital is, that the former is merely the *vehicle,* and the latter the *material* of commerce. Currency is not capital at all in the sense in which it is currency. Capital would exist without a currency; but capital would then have no *medium* of circulation, and a state of simple barter, without a circulating medium, would ensue. Currency stands to capital in precisely the same relation as the locomotive train does to the merchandise conveyed by it; and currency is capital only in the sense in which the train of carriages and the merchandise carried are both *property.* The functions of the currency are thus subservient to the transfer of capital. The amount of capital to be transferred is therefore the natural measure of the quantity of currency required: the more rapid its circulation, the smaller will be the amount of currency necessary for the same amount of payments or transfers; the slower its circulation, the same amount of transfers must require the larger amount of currency. The cheaper the use of the currency to the public, other circumstances being the same, the greater will be the public employment of it. Just as in all these respects, the population and traffic between the termini of a railway are the natural measure of the number of trains required; and the cheaper the cost of transit, the greater the traffic Of the free trade system, this principle is deemed one of the most fundamental, and the rule obviously applies with equal force to a currency as to any other commodity: its use or employment is limited or expanded as its cost augments or diminishes to the public.

The practical question which has of late been much discussed, has been as to the *true proportion* between the amounts of capital and currency respectively necessary the one to the other; and as to the effect of a *sudden disturbance* of that proportion.

Taking any view whatever of such a question, it will be evident that nothing is more easy than to erect theories of the most opposite character, if the question be only superficially treated; because, as will be shown, it is in the *minutiæ* and details of the subject alone that any truth of practical value can be discovered. Most unfortunately, however, such detailed statistics, in this particular branch, in consequence of the more theoretical direction which the enquiry has heretofore taken, are not accessible in the most satisfactory shape. But for this we, of course, are not to blame, and, in the absence of any thing better, we must be content to take our data in the only shape in which they present themselves.

To illustrate the rule, then, that a given amount of transfers of capital or payments of money requires a given amount of currency; and also the effect of deranging such proportion in any given degree; let us endeavour, in the first place, to form some adequate, though necessarily imperfect, estimate of the *aggregate amount of payments made in this country in a single year;* and, secondly, of the *proportionate amount of currency employed to perform the whole*, or *any given portion*, of such payments.

The estimate of the *Capital* of the country capable of being transferred, may be taken for illustration at four thousand millions sterling. But this is not the thing sought for: one-fourth portion of the national property only may be turned over in the year; and yet if a fourth part be turned over many times, the employment of the currency would be indefinitely greater than in the former case.

It will be sufficient for us here to assume, also, the

aggregate currency of coin and paper in the hands of the public, as distinguished from the power of issue in the banks, at *sixty millions* sterling.*

The question next to be considered is,—"*How*, and *where*, is this sum of sixty millions distributed and lodged?" There is an average given portion of course constantly lying dormant in the *pocket;* another portion constantly dormant in the *till;* whilst a third portion is constantly active, from morning to night, always passing out of the pocket and the till, as its place in the pocket and till is filled by an equal sum. The first is the aggregate of that average sum which every man, from peer to peasant, thinks it safe or needful to have by him, in his purse or at home, for personal and household expenses. Were the pocket of each individual, and the money-drawer of each dwelling-house, of a total population of some thirty millions, to be emptied, and the aggregate contents counted on any day of the year, it is difficult to conceive of that sum being less than *fifteen millions*, or ten shillings per head: taking into account the great number of annuitants and salaried persons who draw their income quarterly or monthly, and keeping no bank account, have a large portion of their income constantly locked up.

The second division of the circulation is the aggregate of that average sum which would be counted, on any day of the year, from the till of every bank, counting-house, shop, or place of business in the kingdom; that reserve of *cash*, over and above the reserve in the pocket, or dwelling-house, which every banker, merchant, trader, or shopkeeper, deems it safe and needful to keep by him; and which, therefore, may be said only to leave the till when an

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* This estimate is as moderate as that of the aggregate capital, the circulation of Bank notes in the United Kingdom being, on the 1st of January, 1848, £32,432,689, making the addition of coin only some twenty-eight millions, exclusive of the sum in specie and bullion retained in the banks.

equal sum comes into it. Let us for the moment take this reserve fund to absorb another equal portion, or 15 *millions* more, which, like the first portion, is dormant also.

Then there is the third, or the constantly *active* portion of the circulation, which may be said to be in incessant motion from the hour it leaves the till in the morning, passing and repassing from trader to trader, from trader to bank, and *vice versa*, from the purse to the shop or market, and thence from all to its place of repose for the night—the bank or private till. This portion we must now take at 30 millions. The circulation will then consist of 30 millions constantly *dormant*, and 30 millions constantly *active*.

Now, allowing no more than 30 millions for the active portion of the circulation, and supposing it to be turned over only once a day, for 300 days in the year, the aggregate yearly payment which must be effected thereby is 9000 millions sterling. But, having reduced the 60 millions so low as 30 millions, for the daily active portion, it would be inconsistent to suppose that only one payment per day was made by each fractional portion of this reduced sum. Experience furnishes ample evidence that the same portion of the active circulation—the identical bank notes or sovereigns (whatever be their aggregate amount)—frequently passes through a dozen hands, between the time of its leaving the bank in the morning and its return thither after the duties of the day. Let us suppose, however, that on the average of days *every portion* of this reduced active currency is turned over *three times* a day. The aggregate annual payment will then be 27,000 millions sterling.

It is not needful for the present argument to prove that such is the true amount. It is clear, however, that the most moderate limits, within which the data of such an estimate can be confined, point to an aggregate annual payment, which, if not 27,000 millions, is certainly greater than 9000 millions sterling; as the latter would represent

only *one* payment per day of a circulation reduced to 30 millions.*

The effect upon the argument, of varying the estimate of this active portion of the circulation is this: The lower it is reduced (if to 10 millions for example) the greater must

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* The following Table presents some more positive evidence of the adequate correctness of our larger estimate. The table does not include bills *discounted*, but simply those *retired* for the acceptors at maturity by the banks named.

This detailed account of the amounts of Bills of Exchange retired by the principal banking houses, in London, at the Clearing House, in 1840, appeared in the *British and Foreign Review* for 1844. It does not include the *Bank of England*, or the Joint Stock Banks:—

Barclay and Co.	£107,000,000	Cnrries and Co.	£17,500,000
Glynn and Co.	105,000,000	Spooner and Co.	16,000,000
Jones Loyd and Co.	104,000,000	Price and Co.	15,300,000
Masterman and Co.	90,000,000	Hankey and Co.	15,000,000
Robarts and Co.	80,580,000	Barnard and Co.	12,000,000
Smith, Payne, and Co.	64,000,000	Vere and Co.	10,428,800
Williams and Co.	56,000,000	Rogers and Co.	9,000,000
Barnett and Co.	50,000,000	Dorrien and Co.	8,000,000
Lubbock and Co.	33,760,000	Fuller and Co.	7,500,000
Stone, Martin, and Co.	33,700,000	Brown and Co.	7,000,000
Prescott and Co.	30,000,000	Bosanquet and Co.	3,700,000
Denison and Co.	26,863,000	Stevenson and Co.	3,500,000
Hanbury and Co.	24,700,000	Weston and Co.	3,265,000
Ladbrooke and Co.	24,000,000		
Willis and Co.	20,500,000	Total	£978,496,800

Many of the bills would of course bear nnmerous, some as many as twelve or twenty, endorsations, each endorsation indicating a distinct payment. Taking the average number to be *three*, of each bill, we have the sum of nearly 3000 millions for one limited class only of the country's payments. The greater portion of these bills too would be discounted before maturity, and in a vast proportion of instances re-discounted, often more than once, each process of discounting involving an additional payment of the amount of the bill in *cash*.

To this snm mnst be added the bills made payable in the provinces,—an immense amount; and those which, althongh by the acceptors made payable in London, are both discounted and retired by the provincial bankers, one with another, in the place of issue.

The estimate assumed for illustration will not again be reduced by an attempt to compute the aggregate of the sums of *cash* daily paid at the banks to and from counting honses, shops, markets, dwelling-houses of the city of London, multiplied by the snm of similar daily cash payments in every town and village in the United Kingdom.

A single provincial bank, of moderate bnsiness only, we have ascertained, pays over the counter and remits to London in *cash* (exclnsive of bills) one million per month, about an average of £40,000 per day, or £12,000,000 per annnm, retaining some £12,000 constantly in the *till*, except during the late panic, when this reserve was doubled. *Two* mercantile houses in the same place disburse together an eqnal sum per annum. A hnndred banks only, in three or four of the manufacturing counties, would together turn over probably at least 1000 millions in the year. These remarks are merely illustrative.

be its activity or the number of times it is turned over daily, and the influence and importance of every fractional part become greater also; whilst the consequences of the forcible withdrawal of the smallest portion augment in the same ratio.

If the estimate be increased to 40 millions,—as it seems impossible to reduce the number of its turnings over per day below *three*,—the larger, of course, the aggregate annual payment. To speak of the *constantly active* part of the currency, and to limit its activity below three revolutions per day, seems almost to contradict the senses.

Let us, however, at present assume for the aggregate of the various transfers of money in the year, the sum of 18,000 millions; and that the amount of active currency employed therein is 30 millions, turned over only twice daily. What then are the functions imposed upon each million of such currency? Turned over *once* only per day, each million performs the total payment of about 300 millions per year; if turned over twice a day, about 600 millions per annum. These data, then, will afford us some adequate idea of the *duty assigned* to, and the *monetary power* of, each million of the active currency. By the same rule, therefore, £100,000 of the circulation arbitrarily withdrawn when the public would employ it, is withdrawn from an extent of usefulness to which the £100,000 itself, as so much capital merely, bears almost no proportion. Contraction to that amount is not the withdrawal of so much *capital*, but of £100,000 of *currency*, which it was necessary to turn over only twice a day, to effect by it an aggregate transfer of 60 millions of capital in the year!

The functions of a currency are thus seen to be closely analogous to that of a mechanical power. If it require a given power to move a given weight, the withdrawal of a portion of the power involves the physical impossibility of moving the portion of the weight which depended thereon.

And a given amount of currency being required for the transfer of a given amount of capital, the withdrawal of any portion involves, *cæteris paribus*, an equal impossibility of transferring the portion of capital depending thereon.

If the gravity of the body to be moved be 9,000 or 18,000 millions of pounds weight; or the amount of the capital to be transferred be 9,000 or 18,000 millions sterling; the withdrawal of *one-sixth* of the required power, whether mechanical or monetary, involves the physical impossibility of moving in the one, or of transferring in the other, either 1,500 or 3,000 millions weight, or sterling, as the case may be.

And when it is further considered that the public never takes into use more money than public necessity requires,—that the abrupt withdrawal of each million from the active circulation should be seriously felt in its effect upon the relative value of money and of general property—felt as the imperative cause of a proportionate suspension of payments, or as the contraction of the physical medium of making them within the same given period, —is equally conformable to experience, and to our estimate of the relative importance of every fractional portion of the circulation.*

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* The following Return of the Comparative Circulation of the Banks, at the dates specified, is extracted from the *Bankers' Magazine*:—

	Jan. 2, 1847.	*Jan.* 1, 1848.	*Decrease.*
Bank of England.....	19,748,751 ...	17,956,761 ...	1,791,990
Private Banks.....	4,526,006 ...	3,528,273 ...	997,733
Joint-Stock Banks	3,138,498 ...	2,410,222 ...	728,276
Total in England...	27,413,255 ...	23,845,256 ...	3,517,999
Scotland	3,787,151 ...	3,341,317 ...	445,834
Ireland	7,515,414 ...	5,196,116 ...	2,319,298
United Kingdom...	38,715,820 ...	32,432,689 ...	6,283,131

The decrease within the two dates will represent the reduced scale on which capital was in course of transfer in the latter, as compared with the early part of 1847. That the difference must be some enormous amount, not only our own, but the most moderate guage that can be applied, will demonstrate. And

What is the *meaning* of a "pound?" is a question undoubtedly of great interest in relation to Currency; but can the question, "What is the *power* of a pound," be of less practical importance?

Of the present Parliamentary inquiry into the causes of the existing commercial distress, is not *the effect of the currency laws* to be made a prominent subject; and if the *design* and *operation* of those laws have been *to enforce a great contraction of the currency*, are there any other means by which that effect can be measured than data which go to ascertain the monetary *power* of *that portion* of such currency which had thus been abruptly withdrawn from its office? Yet, through all the Parliamentary inquiries which the working of the currency has from time to time elicited, where is the evidence to be found, or what practical evidence has even been asked for on this, though apparently the first, step to any *certain* knowledge of the subject?

The evidence we have endeavoured to collect on this particular point, though necessarily scanty, is yet sufficient to indicate its great importance; nor will it be denied that even to ask for such is a *step* in the right direction, and not only so, but it may place us at least *one* step in advance of more distinguished inquirers, who totally disregard the only means of estimating the financial consequences of what is sometimes spoken of with so much nonchalance, namely, an indefinite contraction of the currency, on an arbitrary impulse

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this *decrease* is the compound result of some proportionate contraction of the scale of industry and trade with the wages and income therefrom, and of some proportionate dissipation of the previous amount of capital through the general fall of prices and depreciation of property.

The following statement shows the comparative total Bank circulation of the United Kingdom, at the same periods

	In 1846	*and* 1847.	*Decrease.*
January 30.....	39,519,147 ...	39,641,997 ...	.....
April 24.....	39,024,151 ...	38,025,954 ...	998,197
October 9.....	39,155,523 ...	34,705,245 ...	4,450,278
November 6.....	40,954,591 ...	36,736,205 ...	4,218,386
Close of year	38,715,820 ...	32,432,689 ...	6,283,131

The decrease of course does not show the sum withdrawn by *hoarding*.

of official power, or the capricious action of a law framed to act without regard to consequences.

Details, then, such as those presented, exhibiting the functions and powers of each portion of the circulation, are useful again to illustrate the effect, not only of a given contraction of the currency, but also of *any given addition to the demand upon it*, or to the sum of the aggregate annual payments.

Thus, if the aggregate annual payments be assumed at 18,000 millions, and 90 millions sterling be added thereto for some extraordinary circulation of capital in the year—as encreased railway works, or a Government Loan—such additional payment or employment of 90 millions of *capital* would be equal, in its effect, as an increased demand upon the activity of the currency, to the withdrawment of only about £150,000 from the active circulation; and, of not over £300,000, supposing the aggregate annual payments to be only 9,000 millions instead of 18,000 millions sterling: for, £150,000 turned over twice, or £300,000 turned over only once a-day, gives, in either case, 90 millions for the year.

Such details, then, afford some proper and safe clue to the just mode of handling the great economical question as to the *primary* cause of *the recent scarcity and dearness of money*, and of ascertaining to what extent these are justly referable to an enlarged application of capital to Railways, a deficiency of capital for commercial enterprise, a loss of capital by the failure of a harvest, an exchange of capital with foreign countries, or to an *export of the basis*, involving a proportionate withdrawment, of the previously existing facilities of a currency.

Section VII.

OF AN EXPORT OF CURRENCY AS A CAUSE OF SCARCITY, AND HIGH INTEREST, OF MONEY.

From the practical data laid down in the preceding section it would appear evident, that the effect of contracting the currency, no matter by what agency or method accomplished, exceeds beyond all comparison that of an additional demand upon its use to any conceivable extent. Any variety of amount or form in which capital has been known to circulate or present itself, provided only that it do not involve an export of the basis, can therefore, it would appear, exercise only the most trivial influence upon the interest value of money. But an arbitrary and indefinite contraction, actual or apprehended, of the required, and the previously employed, amount of circulation, becomes the origin of an inevitable money-panic.

Nor is there anything unaccountable or supernatural in this. The case is perfectly analogous to that of any other commodity similarly circumstanced.

For example: were the internal transport of commodities restricted by law to *one* medium—the locomotive waggon, and were every waggon to be exported, the effect would be strictly parallel to that of a total export of the currency: the circulation of property, for want of a circulating medium, would simply *cease* in both cases. Export the half, the fourth, or the eighth part of the waggons or of the currency, the transfer of property or of capital would be proportionately interrupted.

Were the currency purely metallic, the export of any portion of it would necessarily involve contraction in the degree of such export. The law of 1844 compels our mixed currency also to contract in the same degree with the export

of bullion. An *export* and *contraction* of the currency are practically, therefore, synonymous terms.

It may be said that a contraction of the currency is remedied by an accelerated circulation. But this idea accords neither with experience nor with the nature of the case. Necessity does not always procure, but frequently puts at the greater distance, the thing wanted. A panic demand to obtain money begets a panic resolution to withhold it.

The passages from a crowded theatre on an alarm of fire *ought*, if possible, to afford, by a more rapid procession, the speedier exit of the unfortunate crowd. But the effect is just the reverse. It is so simply because every individual is resolved to proceed more rapidly, and the consequence is a wholesale calamity.

The *cause* of the panic is the only circumstance that can be remedied; but the panic itself, once started, however absurd its action, or frightful its consequences, is a natural and uncontrollable thing, whether it arise from the cry of "fire," or from a threatened scarcity of money. No harangue, however eloquent, upon its absurdity, will in either case stay or mitigate the evil. The origin of the panic alone admits of remedy.

Let us now inquire what was the actual state of the "money market" in April and October, 1847, under the contraction, by *law* and by *hoarding*, of the currency?

The phrase, "the money market," is commercially as correct as that of "the corn market" or "the cotton market." That is, money as a commodity falls under the action of the same law of supply and demand. For example, were the stock of cotton wool in the British ports to be reduced in the space of three months from 1,000,000 to 250,000 bales, all other circumstances of the trade remaining as before, speculation would naturally ensue; the reduced stock would be hoarded, that is, it would be withdrawn from market, and prices, if they had been previously very low, would rise pro-

bably two or three hundred per cent. Nor would it be any check to speculation and hoarding that the weekly import still kept up nearly, if not quite, to the amount of the former weekly trade demand; because the importers would become hoarders too, until some new or unexpected source of supply caused this speculative grasp to relax; and even this check to speculation would be much modified were it accompanied by an undoubted guarantee that such increased supply of cotton would not be sold after its arrival, except at the advanced price which the previous speculation had established. In the same way money, nowithstanding its important functions as the currency or the medium by which the exchange and value of all other property are regulated, would be unfortunately, though most naturally, subject to speculative hoarding and a high price, as the surplus stock or reserve of the available currency should become reduced, in three months, from £10,000,000 to £2,500,000. Nor should it be at all matter of surprise, that the dearness of money, the result of its scarcity, had failed to be abated by the circumstance of the weekly circulation let out by the Banks of Issue being nearly kept up to its previous amount, nor that the opening of an unexpected source of the supply of currency had lost much of its effect, *if* the advanced speculative price of money were still *guaranteed* to the holders until the money market should be supplied in the usual way.

Now, speculation in cotton, however justly based on deficient supply, is always regarded as a national calamity in so far as the coincident high price becomes a proportionate check to the employment of the population. But were such speculation in cotton to be fostered and maintained, and the advanced price to be guaranteed, by Government, it would be held to be a procedure completely hostile to commercial freedom, subversive of natural justice, oppressive to the labouring classes, and utterly inexplicable. Still only *one* interest, namely, that of the cotton manufacture,

could in such case be said to suffer. But *the avowed protection by Government of the recent speculation in money*, a speculation which, whenever it occurs, necessarily suspends or interrupts not one, but every branch of useful industry; and the tardy issue of an official letter, the effect of which, when issued, was simply to *uphold the currency at its speculative* or *panic price*, seems to be a procedure equally at variance with common justice, and with every sound principle of political economy. For, after all, what is the *effect* of a legal limitation of the supply of money, but a legal attempt to force money to an arbitrary value, temporarily to the gain of the holders, but permanently to the loss and depression of the country? For a speculation even in money, as in every other description of property, however flattering for a time it may appear to those who follow it, results in the long run in equal disappointment; and naturally so, because the scarcity of money and the oppressive and exhausting rates of interest created by such speculation, must of necessity lead to the depreciation of all those securities, particularly Bills of Exchange, on which money had been lent on such exorbitant terms.

What the stock of cotton in the ports is to the cotton trade, the reserve fund of notes in the banking department of the Bank of England appears to be to the money market. It is that which governs the action of the holders of money, either to withhold it, or to supply it scantily at an arbitrary and usurious price. As this surplus stock, beyond the active circulation, increases or diminishes, so does the real and practical value or interest of money fall or rise. The action of the holders of money may precede or follow the action of the Bank of England; but sooner or later, with the reduction of this surplus or reserve, and in the absence of any certain prospect of immediate reinforcement of that reserve, or by *contraction*, the speculation in money, or a money panic, as it is familiarly termed, will commence,

and will be ultimately measured and limited only by its cause.*

The Bank of England being the largest issuer, regulates the value of money, as the largest holder would that of any other commodity. Prior to 1844, the out-door circulation, with an additional unlimited power of issue in the bank, was the quantity of available money from that source. Under the Act of 1844, the out-door circulation and a power of issue in the bank, *limited* by its stock of bullion, constitutes that available money. The unlimited power of issue, prior to 1844, was in the place of the surplus or reserve of

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* With reference to the degree to which the ordinary circulation was actually contracted, it is proper to observe that it is not a correct, although a very common, practice to infer the amount to which coin is exported during a foreign drain to be the same as that by which the bullion of the Bank of England is diminished. The stock of coin always in circulation is about double of that in all the banks together; and it is difficult to account for the recent immense additional import of foreign breadstuffs, creating a proportionately large adverse foreign balance, without supposing a considerable amount of coin to have been exported from the general circulation in addition to what is taken directly from the banks: as presumptive evidence of this, the statement of the Chancellor of the Exchequer, to the following effect, may be in point:—"The cost of corn from June, 1846, to January, 1847, was £5,139,000; from January to July was £14,184,000, and in the *three months* from July to Oct. was £14,200,000!" On the same occasion (the Debate on the motion for a Committee of Enquiry), it was stated by the same authority "that evidence was brought before him to show that notes and gold were hoarded to a great extent, and that the circulation, which was adequate when the pressure was off, was restricted by the existence of panic and alarm."

The precise portion absorbed from the usual circulation by this panic or speculative hoarding, it is, of course, not possible to ascertain. On enquiry, however, it will be found that the banks generally retained in their *tills*, during the greater part of the year after the April pressure, a much larger, and in many instances more than double the cash reserve which had been deemed sufficient *before* the panic. This must necessarily have locked up several millions: and it would not seem an over-estimate were it to be taken at the sum by which the aggregate bank circulation has been diminished during the latter part of the year, which was upwards of six millions sterling (see page 31); for it is natural to suppose that this contraction through hoarding, would, by depreciation, reduce the *amount* of capital in course of transfer, as well as the previous extent of commercial transactions; and that, as the panic and hoarding relaxed, the sum thus released would return to the Banks of Issue, owing to the want of the usual means of employing it, and to the prohibitory rates of interest.

The decisive proof, however, of the great extent to which the public *found* the available circulation to be actually reduced, was the *extravagant rates of interest*, which the holders were enabled to obtain for it during the panics and subsequently.

notes now held under the Act in the Banking department. That reserve fund since 1844 is the limit of the Bank's power to *keep up* or *add to* the out-door circulation. Consequently, the value of money is regulated by the increase or decrease of that reserve. When that reserve, as in January, 1847, is *nine* millions, money is abundant and cheap; when reduced, as in the following April and October, to some *two millions and a half;* so low that the Banking department, whatever public emergency may press for it, cannot with safety to her own position lend out another note, panic immediately and naturally ensues. The utmost publicity through the medium of the *Gazette* being given to the fact that the *supply* of *money* is *cut off at its source,* is a natural and irresistible cause of alarm, and *hoarding* is as naturally the result.

Section VIII.

OF THE STATE OF THE LAW AS A CAUSE OF SCARCITY, AND HIGH INTEREST, OF MONEY.

Of the commercial calamities, almost unparalleled in extent, which, during the year 1847, have befallen this country, it is not intended in the present observations to charge upon the Currency Laws in general, nor upon the Act of 1844 in particular, any portion but such as is distinctly claimed and avowed by the promoters of that Act as an integral, essential, and indeed the most effective, result of the commercial theory or system of currency to which it belongs.

The remedy prescribed by that system for a drain of bullion, *in whatever cause the drain may originate,* is *an unlimited depreciation of property.* On this point no doubt will exist. The following question (No. 2757) of the Parliamentary Committee of 1840 is put to Mr. Samuel Jones Loyd:—

"Then, if the drain arise from any special cause, such as *an importation of foreign corn,* do you think it would be reasonable, under such circumstances, in order to produce an effect on the exchanges, *to cause a pressure?*"—(*i. e.,* on the prices of manufactures.)

The reply of this eminent witness was, "Yes."

Colonel Torrens, another accredited expounder of the same system, explains, in the following extract, the specific action of the prescribed remedy when applied:—

"By *means of contracting the circulation,* the *cash at the command of the bankers and bill-brokers being diminished,* they would see the expediency of restoring the ordinary proportion between the amount of their immediately available funds, and their immediate liabilities, by limiting

their discounts and credits, or by disposing of their securities; the merchants and dealers who employed bankers, finding their cash balances reduced, and their accustomed amount of discounts diminished, would abstain from purchases, or dispose of securities to complete them, and from all these several causes, *the prices of commodities would decline*, and *the rate of interest advance*."

These two passages, containing the avowed sentiments of some of the most distinguished of those authorities by whose advice the present laws relating to currency have been framed, are conclusive as to the *design* and *effect* of those laws to produce, during a great scarcity of food, a proportionate scarcity and dearness of money, and, by that agency, an unmeasured depreciation of general property.

In perfect harmony, then, with the *letter*, the *spirit*, and the *action* of the law we have had in 1847, first, a scarcity of food; next, an export of gold; then, a proportionate contraction of the available currency, with a quadrupled rate of interest; the most general and frightful decline in the value of commodities involving an *equal* dissipation of the commercial capital; and—a corresponding amount of actual and proximate insolvency.

This formidable visitation, we again repeat, *may* be a necessary evil; that it is so regarded by the responsible advisers of the Legislature we cannot doubt: that, however, is not the point now before us. The specific object with which we set out was to discover an *adequate* cause for the overwhelming loss of capital earlier adverted to. Such a cause had at first naturally presented itself in our consideration of the facts of the case. The depreciation of property had been traced to the violent withdrawal of the physical medium of payments; and, by the decisive testimony of those who framed the law and have advised its recent execution, we seem now fully and irresistibly confirmed in this judgment.

But when the *professed design* of the law of 1844 has been, under existing given circumstances, to reduce the value, and consequently the amount, of commercial capital, such depreciation involving of necessity a proportionate amount of commercial embarrassment and bankruptcy; and when such a law has been resolutely carried into effect, until the mischief of its operation became insupportable even to its advocates; on what intelligible grounds can those respectable propounders of the law justify a professed expectation of being able to account for the general distress from *other* circumstances, which shall exonerate the law and its upholders, and inculpate only the commercial public?

To search for complex and equivocal causes of the evil, after so much circumstantial and positive evidence, appears equally inconsistent and supererogatory. The only question seems to be,—*Has the law been carried into effect?* If so, by confession of its authors, a most overwhelming depreciation of property *must* have ensued therefrom: if such calamity have *not* happened, then the law has been a dead letter. That the law has not, however, been a dead letter, the clearest evidence is furnished by its abrupt repeal on the 25th of October, on an *acknowledged public necessity;* when, amidst the ruins of a multitude of fallen houses, and the impending fall of the most eminent establishments for wealth and commercial influence, the Government, with only a few hours to deliberate, was reduced to the choice of only two alternatives, namely, universal bankruptcy, or that of the Bank of England.*

* The events preceding the suspension of the Bank Charter Act are thus described in the *Bankers' Magazine* for November, 1847:—"A deputation of merchants from Liverpool first waited on the Ministry, and presented a memorial, which stated:—

"'Your Lordship may depend upon us when we assure you that, if the present pressure be not relieved, merchants and other traders, of undoubted respectability, who are not only solvent but rich, and who have merchandise and bills which, under ordinary circumstances, would afford easy and ample means of meeting engagements, will inevitably be compelled to stop payment.'

"The reply of the Premier and the Chancellor of the Exchequer to this

And when, on any future emergency, the alternative shall, as in a very few months hence it *may*, again impend between *inconvertibility of the currency* on the one hand, and *general bankruptcy* menacing on the other, the former contingency will *again* be as promptly abandoned to the chapter of accidents, in order to avert the latter, as the greater, catastrophe. The honourable avowal of the Government is the best voucher that the public welfare will not be *entirely* sacrificed to the absolute maintenance of an abstract principle. But what then becomes of the *rationale* of the present laws for the protection of convertibility?

To impugn the doctrine of convertibility, however, let it be understood, is far from the design of these observations. The object of the present essay is simply to exhibit

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memorial was of the usual official character, and it appeared almost certain that Government did not intend to interfere. The state of the conntry grew more alarming, and the pressnre on the London bankers assnmed a degree of severity almost unexampled. A heavy drain for bullion for home use by the different conntry banks set in against the Bank of England, and the crisis assumed a character too serions to be disregarded. An earnest appeal was made to the bankers and merchants of London by the public press, that they shonld wait on the Ministry, and explain the actnal condition of affairs; and ultimately, in accordance with this suggestion, Mr. Glyn, M.P., Mr. Masterman, M.P., Mr. Samuel Gurney, and other influential gentlemen (ten in number), waited npon Ministers on Saturday, the 23nd, and made a statement, which seemed at length to convince the Ministry that they could not safely disregard tho appeal addressed to them, and that they must endeavour to restore confidence, by taking off the restriction under which the Bank laboured. They accordingly agreed to bring the subject under consideration immediately, at a Cabinet Council, which was held at Lord John Rnssell's official residence, in Downing-street, at three o'clock, on *Sunday*, and the deliberations lasted till past five o'clock. This was done, and on Monday, tho 25th October, the Bank Restriction Act was virtually repealed, by the official communication from the Premier and the Chancellor of the Exchequer, addressed to the Governor and Deputy-Governor of the Bank of England, which is given in the *Bankers' Magazine* for November, 1847.

"The immediate effect of this important, and, we may add, unexpected announcement, was to improve the valne of the public funds nearly five per cent. within three days."

"In addition to these details," observes the editor of the *Economist*, "it may be added that *Sir Robert Peel*, having arrived on Friday night at Whitehall Gardens, on his way to visit the Queen, he was waited upon by Sir Charles Wood, and they remained in conference till midnight. *Twelve* per cent. was charged by the Bank for loans on the security of *Consols* and *Exchequer* Bills, and the discount on bills ranged from 10 to 12 per cent. It is said that the Bank were borrowers of money at from 7 to 7½ per cent."

the *cost to the country*, and the *marked failure* of the recent attempt to maintain that principle by means of a capricious, ruinous, and, as the event has shown, an *insufferable* contraction of the currency,—the only means, notwithstanding, which the experiments of nearly half a century had suggested to those, who had uniformly assumed all the responsibility of the various currency laws which, during that period, had been enacted.

The conspicuous failure of the Act of 1844, as a remedy against the wildest rage of railway speculation; the almost gratuitous acknowledgment of Sir Robert Peel in the recent Debate, that, contrary to his prediction and original judgment, that Act had also disappointed him as a remedy against commercial panics; and the historical fact, that principles of political economy the longest, the most eloquently, and the most resolutely maintained by the ablest of statesmen, have been, by the same eminent individuals, as eloquently and as ably *denounced, reprobated,* and *abandoned,*—afford a natural presumption, and not one of the lowest degree, that complaints the most distressful and general, such as those recently and with such tardy and so little effect made in the proper quarters, may be long treated with neglect, and even with contempt and ridicule; and yet that the parties so complaining may be suffering entirely from the errors in judgment of those more influential personages who have so widely misunderstood the subject.*

* The *effect* of the measure referred to, when at first proposed, was *a priori* proved to be—

"To inspire *just confidence* in the medium of exchange, to *put a check* on improvident speculations, and to insure, so far as legislation can insure, the *just reward* of industry, and the *legitimate profit* of commercial enterprise, conducted with integrity, and controlled by provident calculation."

By a simple conversion of all its terms, the same eloquent passage would read thus:—

"To inspire the *utmost distrust of* the medium of exchange, to *give the reins to the wildest* of speculations, and to insure, so far as legislation can insure, the *utter disappointment* of industry of its just reward, and the most *ruinous failure* of all commercial enterprise, though conducted with integrity, and controlled by provident calculation."

In which of the two forms the sentence would read most in accordance with the *a posteriori facts* of the case, as already, and as yet to be, explained, is left to the judgment of the reader.

Section IX.

THE EVILS, ASCRIBED TO THE BANK CHARTER ACT, CONSIDERED AS THE ALLEGED MEANS OF AVERTING GREATER.

As respects, first, the escape of the country, by those means, from the greater evil of an *inconvertible currency*, which it was the professed object of that measure to avert; the sudden suspension of the Act itself—at the precise point where its agency was designed to be efficacious, namely, when the greatest, indeed the only, danger of such an issue was perceived to menace,—must be acknowledged to be a fact of the most decisive character *against* all such claims on behalf of the operation of the Bank Charter Act, to the merit of this national deliverance.

But, however deficient of merit in this particular, the effect of the Act of 1844, it will be also apparent, was more conspicuous—equally to the agents of the measure and to the sufferers by its operation—as inducing the instant peril of a state of general bankruptcy; an issue on the other hand which, it would appear, was, by the *Government* at least, deemed to be the *greater evil*, comparatively, even with that of *inconvertibility* itself; otherwise it would seem impossible that, when compelled by irresistible circumstances to make choice between the two, they should have resorted at once to the immediate suspension of the only protective law against inconvertibility, and that, too, in the very presence, or at least in the immediate prospect, of the *alleged* greater calamity.

Nor, secondly, would it appear less difficult to reconcile with the known facts of the case the statement which has also been repeatedly made by official and other persons, to the effect, that the country has been solely or mainly indebted to the

Bank Charter Act for furnishing the Bank with the large stock of bullion against the exigency which led to the recent drain: for, unfortunately for this statement, according to the *London Gazette*, the Bank treasure had amounted to £15,844,000, as the average of the four weeks ending on the 27th April, 1844; that is, not only before the Act had been passed, but before it had even been *proposed*. Nor can it reasonably be doubted that subsequently the extensive investments in domestic railways, whatever may have been their effects otherwise, had been the principal means and inducement by which the bullion in the Bank had been retained to so large an amount until the spring of 1847; *when* it also became evident, as it was in the month of October following, that the Bank Act, under other circumstances, was equally powerless to *retain* in the country a stock of coin adequate to uphold a *required* amount of currency.

Nor, again, thirdly, is it at all more evident that the merit, likewise claimed for the Bank Charter Act, is due to that measure as having lessened by its past, or as preventing by its future, operation the evils of a system of *over-trading*—by process of that money-pressure which, because it naturally sends first to the wall the weakest in point of capital, has been, therefore, assumed to have thinned the ranks of over-traders, and to have consequently left standing in the commercial field, in so much greater proportion, those only who are possessed of adequate capital for their sphere of business.

Let us enquire into the manner in which the Act has worked towards this beneficial result?

A, then, is a merchant in the American and India trades, who, on the 1st January, 1847, was possessed of a clear surplus capital of £200,000. Of this, £50,000 was the invoice cost of cotton wool on the way to Liverpool; other £50,000 was the invoice cost of British manufactures on the way to India; other £20,000 was in bills in his port-

folio and cash with his banker; and the further sum of £50,000 had been invested in London and North-Western Railway Stock, as the best and most profitable security, £10,000 in the 3 per Cents., and £40,000 was payable for an estate and mansion, to which he intended shortly to retire. Thus the £200,000 was represented by property fairly valued at the market price. In April the cotton had arrived here, and being valued at the interim decline of 2d. per lb., had depreciated 25 per cent., or by £12,000. The altered state of the money market, which led to this decline, had rendered India bills at the usual date, of the first class, inconvertible. This had resulted in a great sacrifice of goods in the India market. But having now made up his mind to the fact that money and food were the only commodities which could advance in value, merchant A sells his stock of cotton at home, and orders his goods in India to be sold on arrival there, though at a sacrifice of 20 per cent. This is accordingly done—together reducing his £200,000 by the loss of £22,000. He now transmits orders to India to invest the proceeds in bills or produce: rice, if to be laid down in England, at 18s., the price here being at the time 22s. per cwt.; or sugar, if to be laid down, at 30s., the price in England being 35s. per cwt.; or silk or indigo, if to be laid down with an equally fair margin for profit. At the same time, having sold his cotton, and, stimulated by the Government report of the alarming scarcity of food, he transmits orders to the United States for £15,000 worth of flour, if to be laid down here at 40s., the price being then 50s. per barrel; £20,000 worth of wheat, if to be laid down, at 80s., the price being then 100s. per quarter; and £20,000 worth of Indian corn, if to be laid down, at 55s., the price here being then 75s. per quarter.

All these orders are executed, and the produce arrives in the course of the summer; but the flour having fallen to 25s. per barrel, wheat to 50s. and Indian corn to 26s. per

quarter, and being sold, the first loses £6000, the wheat £8000, and the corn £11,000; together £25,000. The sugar, rice, silk and indigo also arrive, and lose an average of 25 per cent. on £40,000; making £10,000 of loss in the India trade, which added to that in the American trade, £25,000, and further losses of £10,000 by bad debts on sales, make a total loss or reduction of capital, with the £22,000 on cotton in April, of £67,000.

But in the summer the prospects of the money market, with a great influx of bullion, and the certainty of an abundant harvest, have entirely changed. On this account the merchant had decided on selling his imports of food at the great sacrifice mentioned. The cotton market has also rallied with the improved prospects of that for money, the stock of cotton besides being greatly reduced in consequence of two short crops coming in succession, and the great degree of certainty that the next one can only be very moderate. Our merchant A now eschews breadstuffs entirely, and hoping, in the since improved prospect, to redeem his early losses, he renews his shipments to India to the extent of £40,000 value; and transmits orders to the different American ports for £60,000 worth of cotton, provided it can be laid down at 6½d., the Liverpool price being then 7¾d. per lb. The whole of the cotton is purchased, and arrives in the month of October; but in the interim another vicissitude has occurred in the money market: bullion has been largely exported, a second money panic prevails, and the fall in cotton is 3d. per lb., or some 30 per cent. of the cost, which, on £60,000, is about £20,000, in addition to £11,000 more in bad debts.

Our merchant now sells, from necessity, not only his cotton, but his railway and Government stocks: these have also fallen, by an average of 30 per cent., which, on £60,000, is about £20,000. He now, too, in the close of the year, hears the fate of his second shipments to India. With the

bad prospects for trade, he had directed a sale of this property on arrival, although at a loss of 10 per cent.; and, to avoid the risks on produce, had directed the proceeds to be invested in bills of exchange; which being done to the extent of some £36,000, and being mostly on insolvent houses whose means had been dissipated in the same way, cause a further loss of £28,000, making the total loss on the year's business some £150,000. He is now compelled, by force of these circumstances, to bring to the hammer his estate, mansion, furniture and equipage: supposing the first to have cost him, twelve months before, £30,000, it would not, in October, probably have brought for cash more than £20,000; his mansion and furniture, which cost £8,000, not more than £5,000; and his carriages and stud, which cost £2,000, would not have brought more than £1,000: thus reducing the value of his property again by £14,000, and leaving him, in the end of the year 1847, some £36,000 instead of £200,000, which he had been clearly worth in the beginning of the year 1847.*

B, also, is a merchant, but who had commenced the year with a surplus of £100,000; he conducted precisely the same kind of business with the same result: the difference between him and A was simply that A may be said to have traded entirely within his own means; B had a surplus of

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* Those persons generally who have transacted their usual amount of business during the year 1847, will recognise in the narrative of merchant A's career a strict analogy to facts, and will be able to trace in other departments of trade and manufactnres nnmerous histories of an equally distressing character. Amongst others, for example, an extensive Lancashire cotton spinner, whose machinery works np some 200 bales of cotton weekly, makes the following acknowledgment:—"In the summer we made our calculations on the same principles as those on which we have invariably acted for years past; and, concluding that cotton mnst, from its own position, become much dearer as the year advanced, we purchased such a supply as would serve ns till Christmas, at about 7d. per lb.: we have been selling the yarn at the same price!" On five months', or twenty weeks' stock, at 200 bales per week, the loss would be at least 3d. per lb., or about £6 per bale, making a total of £24,000 as the loss on this provident operation by one manufacturing establishment.

half the amount of his total liabilities; but each has now lost £160,000; A has still a surplus left, but B is bankrupt, and pays 7s. 6d. in the pound on £200,000 of debts.

C is another merchant who does the same amount of business with the same result, commencing the year with a clear capital of £50,000, and ending it with a net loss of £180,000; he also is bankrupt, and pays 2s. 6d. in the pound on £200,000 of debts.

D is another merchant who had £400,000 of clear surplus capital, until the money panics of 1837 and 9 placed him in a worse position than that of A at the end of the year 1847. D continued his usual course of business, and in January last had increased the scale of his transactions, until, aided by the singular reverses of that year, his losses amounted to £950,000. He also is bankrupt, and pays 3s. 6d. in the pound on £700,000 of debts.

The question now before us, as arising out of these several cases, is:—Supposing the individual commercial capital, comparatively with the scale of liabilities, to be the average of A and B's relative capital; and the case of D to represent that of some five or more out of every hundred of mercantile firms in the kingdom,—whether it is more advantageous to the community that, for the purpose of *putting down* some such proportion as this of houses trading beyond their means, a formidable process, like that referred to, should be maintained, even although its operation should necessarily be attended by the sweeping and undistinguishing desolation which, in manner described, must, at the same time, reduce also the *most wealthy* and the *greater number* to the verge of bankruptcy. It does not seem to admit of a reasonable doubt that—even allowing to the operation of the Bank Charter Act the full merit of this partial expurgation with reference to some more distinguished offenders against commercial propriety and probity,—the same measure cannot fail to have left standing,

at the 1st of January, 1848, (to omit all mention of those, until recently, wealthy firms who have already succumbed to the stroke,) an immensely greater number than could have existed on the 1st of January, 1847, of houses whose capital, although not entirely dissipated, has been so far reduced as to render their condition one of proximate and eventual insolvency: whilst indeed the further question may properly be put, whether the creditors, in the supposed case of even merchant D, have really been more benefited by his being compelled to stop payment at a time when the assets of his estate have, by the same agency, been so ruinously depreciated, than at a time when, in consequence of the better condition of trade, and a more adequate circulation of money, the same assets would have yielded to the estate probably ten to fifteen shillings, instead of two shillings and sixpence, or less, in the pound.

These observations, we beg to say, are offered in no spirit of captiousness. They are suggested by obvious commercial and public facts of the most distressing nature,—facts, however, which seem to admit of only one conclusion, namely, that the Bank Charter Act of 1844, as an instrument of public benefit, has conspicuously failed in its designed capacity to avert either the evil of inconvertibility itself, or any greater evils than those it has inflicted; and that, in the proportion of its efficiency, it must collaterally have augmented, instead of reducing, the relative proportion of the insolvent to the solvent part of the commercial community.

Section X.

A HIGH RATE OF INTEREST CONSIDERED AS A BOUNTY TO MONEY-CAPITALISTS.

Capital is either in money or goods; but the owners of both have equal rights in respect of the disposal of their capital. The capitalists in money, who in this country own in prosperous times probably some 300 millions sterling, had they so much capital in gold and silver locked up in their own chests, would have the right, if they had the motive, to export the whole. If unable to find any or a more profitable employment for it in the country, they would do so. And in exporting it they would affect no interest but their own. The money was before locked up; it is now exported: the effect to the country is just the same.

But such is not the position of money-capitalists. They have neither gold nor silver in their chests. Their 300 millions has been deposited with bankers and bill brokers. The whole sum, though nominally subject to their call, is still not in existence as money. The bankers themselves have it not. They have also lent it out, and it has all been invested in the funds, houses, docks, railways, &c. No *money* exists, except some eighth part of this nominal sum, namely—the amount of the *circulation;* and of even this, all that is really money in the strict sense is the *coin* in the banks, into which the currency is convertible.

Now, upon this amount of coin every holder of property, of whatever description, has an equal claim with the so-called monied capitalist: for the value of property under the present law is simply its convertibility into so much gold, and for which process that quantity of coin, and that only so long as it remains in the banks, is the sole security.

What then is the peculiar right of the money capitalist

in respect of this comparatively small amount of coin constituting the legal basis of the currency?

Let us suppose the owners of some 10 millions of the Bank deposits referred to, influenced by the higher rate of interest, and a demand for gold and silver abroad, determined to transfer thither in gold and silver so much capital. Have they an equitable right to do so? Unquestionably they have, if, as before said, they are possessed of it; but they clearly are not, and this is the great point. They can demand their deposits to that amount in Bank of England notes, and the Bank, if possessed of just 10 millions of coin, is obliged by law to pay the whole of it on their demand: this is done, we will suppose, and the coin is exported. But the point is, Is this equitable? Have so few capitalists the fair right to do this? The effect of the export of so much coin is, of course, to render of no determinate value all the real property of the country; which, in consequence is no longer, even in *idea*, convertible into gold: for the gold has gone abroad; yet every owner of land, of goods, and of the public funds, is supposed to have had an equal right of thus converting his property into gold, and exporting it.

Has the Bank dealt quite fairly by her *other* creditors who hold the unpaid portion of her notes? In other words, have the capitalists who have so exported the coin been permitted to export no more than what was justly their own?

The first of these questions, if referred to a Judge of the Bankrupt Court, would, it should seem, be at once answered in the negative, if it related to a merchant who had in this way become insolvent. The Court might probably withhold his certificate on the ground of undue preference having been given. The Court would hold that a Company in the circumstances of the Bank ought to have suspended payment, or to have called a meeting of their creditors, whenever the prospect of such demand from so limited a quarter for their whole means first and with certainty broke upon the Directors.

The second of these questions is partly answered by the reply to the first. Those capitalists had obviously, in the first place, no fair right to this preference, if it were exercised to the prejudice of all other creditors and parties equally dependent on the Bank's specie; and, secondly, they have therefore exported what was legally, but not equitably, their *own:* for, they have, in fact, exported not only so much *capital*, but the whole *foundation* of the *currency*.

Now, it is generally urged that *the rate of interest should be raised* to prevent an export and promote an import of capital. Free trade, however, upon the broad principle, should be equally opposed to a *bounty* as to a duty. The more equitable rule would appear to be to allow all capitalists to do what they please with their *own*. If a better investment present itself to them abroad, let them embrace it; but let the law of the land protect the currency from individual monopolisation. The *currency*, as we have seen, is essentially distinct from *capital* in every shape. It belongs to the *country:* as much so as the Queen's highway does; and it is difficult to conceive of any just *principle* on which the *few* should thus be permitted to export, to the prejudice of the entire body politic, what was equally the property of *all*. The law, however, as it now stands, ensures to the *first comer* a precedence of claim upon the coin of the Bank of England and therefore upon almost the entire currency, with an equal power to depreciate all the property of the kingdom; leaving other claimants, because *all* cannot be *first*, totally unprotected. Here then, again, even admitting that such a constitution of the currency is still the true and only proper one, we are obliged also to admit that it involves, essentially, at all times, and alarmingly menaces, whenever a drain of specie occurs, an action the most adverse to common rights.

But allowing that the effect of raising the rate of interest, and of the insupportable depreciation of property which

attends it, were immediately to bring into the country a large amount of foreign capital, and capital particularly of foreign princes; yet it must be granted also, as every such investment is the purchase of a power over our finances which, like the recent investments by the Russian Monarch, may at any time be exercised to involve our whole commercial system, through the simple demand for so much bullion, in a state of the most calamitous confusion; that it is still an advantage of the most questionable character, which can be defended only on the plea of some temporary expediency, and not on any sound principle.

Of a financial system which would erect upon the slender basis of some ten millions of gold the whole superstructure of commerce, the aggregate property of the country, and the capital which, to the value of several thousands of millions sterling, is constantly changing hands, *that* must be acknowledged to be at least a great and solemn defect, which places so slender a basis at the mercy, it may be, of a foreign foe, or of a periodical domestic famine; nor is it a less striking anomaly, that the very constitution of that commercial system should require the operation of the laws on the subject to be directed, not to maintaining the integrity and permanence of that basis, but to provide the greatest amount of facilities for its sudden and entire abstraction.

But this *bounty* to money-capitalists,—of a high rate of interest,—to sustain which the heaviest tax a Government can devise must be laid upon the vital energies of the entire community, does not appear after all even to touch, much less to arrest, the evil of a drain of bullion, intended thereby to be remedied: at least it would seem impossible circumstantially and satisfactorily to explain upon what consistent or feasible principle of commercial policy this remedial process, even were it more endurable, can be said to take effect.

If raising the rate of interest be sufficient to arrest a drain of specie, how is it that, for so long a time, specie has been coming into England from New York, with interest at 15 to 18 per cent. in that city? or how did it continue to leave England in April last, when interest had risen to 10 per cent.? or how does it constantly leave Mexico, where interest is seldom below 12 per cent? It is true that a money panic, when the *cause* of the drain is temporarily exhausted, may lessen the drain by rendering insolvent the drawees of foreign bills, which bills are therefore not paid; and that the apprehension of such insolvency, as the consequence of the attendant depreciation of property, may check the desire of parties to buy such bills on the previous scale, and therefore lessen the export of our gold to buy such bills. But, here, it is obviously *not* the rise of interest, but the *commercial discredit* and destruction of confidence which lessen the drain of specie: a cure which can hardly be considered less killing than the disease to which it is applied as a remedy.*

If specie be on the way from England to the continent, and the rate of interest in England be raised to 10 per cent. to arrest it, *how* does this act to attract capital? It is answered that interest being lower on the continent, bills of exchange would be sent there to be discounted; and that if interest remained in England below the continental

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* Colonel Torrens, when explaining the effect of contracting the circulation with the design of advancing the rate of interest and depreciating property, proceeds to state, that "The causes which had created the adverse exchange, would begin to be counteracted *the instant their effects were felt.* It is *probable,* that through the diminution of imports, the increase of exports, the recal of foreign investments, and the contraction of the auxiliary media of exchange, the currency might be restored to the foreign par, and the drain of gold arrested *before* £1,000,000 *had been abstracted from the coffers of the Bank.*" It is hardly necessary to remark how much the reverse of the actual circumstances, in April and October last, was this *a priori* description of the process; for the drain of specie was not arrested in April, till *six* millions had left the Bank, nor in October, until the January stock had been reduced by *seven* millions, when, in hopelessness of arresting the drain, the Act of 1844 was rescinded.

rate* during the drain, bills would come to England to be discounted, and increase the drain. But is it not a sufficient answer to this illusion to inquire where the bills are *payable?* If the bills are, at maturity, payable in England, sending them to the continent would not keep them there; they must, of course, return hither for payment. If payable on the continent, their being sent here for discount would not retain them here; they must be sent back to the continent for payment. It is therefore not possible, by this means, to remedy the drain of bullion: even if the money panic had not the effect of destroying the credit of bills in England, as well as of bills generally,—which is the *greater* calamity to be avoided.

It is evident that when the balance of foreign exchange is against England it can only be paid by *a remittance* of *specie;* and that a premium, varying from 30 to 200 per cent. per annum,† stimulating such drain of specie, can never be counteracted by any conceivable rise of interest in the country which owes the balance. This balance must be first *paid;* or, if the bills of exchange which create such unfavourable balance have lost credit with the usual buyers of them, the drain must unnaturally stop; but if the commodities for which such bills have been drawn be essential to the importing country, it would obviously not be politic to destroy the *medium* of such necessary supplies until the demand for the commodities were first satisfied.

That after the most exhausting depreciation of general property, represented by the fall of the highest class, namely, Consols, to 85 and 79, an isolated foreign capitalist may be

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* "If it were advisable, as it undoubtedly was, that capital should be attracted to England, it could only be so attracted by placing the rate of interest *a little above* that given on the Continent of Europe and the *United States of America.*"—*The Chancellor of the Exchequer.*

† If exchange at New York were net 4 per cent. against England, the profit on exporting our gold thither—the time occupied in the whole transaction being only about 30 days—is 4 per cent. per *month*, or 48 per cent. per annum. Between England and the Continent, where the operation is one of less than a week, if exchange were net 4 per cent. against England, the profit on exporting specie thither is 4 per cent. per *week*, or 208 per cent. per annum.

induced to invest two or three millions in the national securities is possible, for it has recently happened; but still the question remains for consideration—the national securities being almost the only kind of investment attractive to foreigners when the derangement of trade through the prevailing panic has rendered of uncertain value every other species of property,—*how much larger* an investment of foreign capital, which in the usual course of business would have been made in our manufactures, has been prevented by the difficulties of negociating the usual credits necessary to such trade, through the high rates of discount, and by the natural reaction of a money panic in England upon the monetary concerns of all her foreign customers? In the too superficial manner in which this point has been considered, we are simply *assured* by the defenders of the process of raising the value of money in order to depreciate every thing else, that its effect is to turn the balance of exchange in our favour. The *details* of that process, if its rationale were only to be tested thereby, would not, we humbly submit, confirm this judgment: at least the theoretical argu ments which are generally adduced in support of this hypothesis seem to fail of proof when brought to the test of facts. For,—let the average imports of Great Britain be 60 millions, and the average exports be 60 millions, Exchanges being thus supposed to be at par; let us now require an extraordinary import of food, which should leave a balance of *ten* millions against us to be, in the first instance, paid only in bullion, so soon as the additional bills of exchange for that value appear in England: the process of depreciation reduces then the value of our manufactures, in common with other property, say 25 per cent. The same quantity of manufactures which before was worth 60 millions is now worth only 45 millions; the difference of 15 millions, added to the 10 millions of previous adverse balance, thus increases it to 25 millions. The process now professedly depends upon this 25 millions being balanced by a proportionately *in-*

creased foreign demand; but this would of course require that demand to be nearly 50 per cent. greater than it had previously been.

But two physical impossibilities are here supposed to exist. In the first place, British production, which only increases by some 10 per cent. per annum, could not *supply* the demand. The price would therefore rise immediately with the demand, and check it in so far as it depended on this process of depreciation. In the next place, no foreign country could *consume* so increased a supply of all our productions in one year, the annual increase of consumption being only by some 10 per cent. also: for cheapness, although it might and would gradually but slowly induce an additional use of commodities, could not be expected to make people submit to the inconvenience of wearing two hats or two pair of shoes at once.

But the process of depreciation relies again equally upon reducing the value of *imports*, which of course is its effect. Suppose, then, the 60 millions of imports also reduced to 45 millions,—we are still no nearer reducing the original adverse balance of 10 millions. The whole effect has been to reduce by so much the only means out of which foreigners purchase from us the returns for their productions. But if we consider, besides, that the 60 millions' worth of British manufactures, and the 60 millions' worth of foreign produce, *cost* the producers each respectively that sum; but yet that sum has been reduced by 15 millions to each, and is to them equally a loss of so much capital; it is not difficult to imagine that the chief result of the whole process of depreciation would rather be *against* than in favour of adjusting the balance; and that its success, supposing its object to be gained, namely, the reflux of some five or ten millions of bullion, can scarcely compensate for the general disorganization of the whole system of commerce, which is the price paid periodically for so ideal an advantage.

Section XI.

OF AN IMPORT OF CURRENCY AS A CAUSE OF ABUNDANCE, AND LOW INTEREST, OF MONEY.

The phrase "an export of currency" was recently adopted as conveying the true idea of a *drain* of bullion. The phrase "an import of currency" is used in the same sense to denote the practical effect of the *reflux* of bullion. The effect of the drain was to destroy to that extent the previously existing medium of circulating the dependant amount of capital. The effect of its return is to restore that medium. The immediate result, of course, of the abundance of money is its *cheapness*, of which again the natural effect is a *gradually extended use*. Just as with regard to any other commodity—cotton, for example, an accumulation of stocks in the ports becomes a safe and certain foundation for moderate prices, and these as naturally conduce to extended consumption of that material. The *cheapness* of it alone affords to the article a new field of application and consumption, which had not otherwise existed. But in both these instances the growth of consumption or of use, from cheapness, is the *slow* though *sure* work of time.

Accordingly, as the stock of bullion accumulates, the available currency becomes in excess of the previous demand; the competition amongst money capitalists to employ it, reduces the rate of interest, until money has become, as it is called, "a drug in the market;" and when matters have so remained sufficiently long to inspire confidence in their permanency, the wide margin then discovered between the rate of interest obtained or paid for money, and the rate of the return or income derived from fixed capital, in its various modes of investment, begins to

attract public attention; the established schemes of joint-stock companies rise gradually to a higher premium, corresponding more nearly with their intrinsic value measured in gold; which value, being some 100 per cent. more than that of the capital originally invested, becomes an irresistible stimulant to the multiplication of similar schemes, and a phrensy of speculation *naturally* ensues. And fortunate, indeed, is it for the country, under the present system, when this redundancy of capital finds an adequate attraction at home, and is not compelled, from the want of domestic investments, to seek it abroad. In the latter case, an export, not merely of capital, but of *currency*, is involved; whilst, in the former, the result is simply the vivifying domestic circulation of *capital*, the promotion of general industry, and the proportionately expanded demand for all productions; of which this increased consumption (though, as before stated, the work of time) gradually augments the prices, and, by the same process, reduces the stocks, until speculation is drawn into another field, namely, the various descriptions of *foreign produce;* of which the now augmented imports, stimulated by the advanced prices, demand from us again, for want of every other temporary medium of exchange, a proportionate *export of currency;* and this as certainly involves, as we have seen, the derangement of the very foundations of our commercial prosperity, with the sudden contraction of that expanded consumption of commodities generally which had formed the basis of those extended imports.

To deny that the influx of bullion is the active regulator and depressor of the rate of interest; that the depressor of the rate of interest is the elevator, eventually, of the price of consols and of other fixed property; that an expansion of the field of labour and of the aggregate income is the cause of increased consumption and of advanced prices of commodities, is clearly to deny the most

palpable matters of fact.* And, if these circumstances so stand to one another, in the relation of cause and effect, it seems as obviously impossible to deny that a mania of *wild speculation* eventually depends upon a great *import*, as that a *commercial crisis* does upon an *export*, of currency. Indeed, the one extreme must naturally and endlessly *reproduce* the other.

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* This would seem to be the only intelligible mode of referring a general *appreciation* of commodities to a redundant circulation. The argument of Mr. Tooke seems to be this: Prices of commodities did not advance *coincidently* with an augmented circulation; or, if they did, there were other causes which adequately accounted for it: therefore, if prices of commodities *fell*, in whatever degree coincidently with a *violent contraction* of the circulation, and with other causes, which would always account for a portion of such decline, the contraction, to whatever extent, of the medium of transferring capital, should be regarded, not as the *main*, but merely as an *aggravating* cause of the decline. Such an argument, however, proceeds obviously on no estimate whatever of the *functions* or monetary *power* of such arbitrarily withdrawn portion of the currency, nor of the *essential* depreciation of all property involved in the simple fact of an extreme rate of interest.

It is true that when the circulation is full, no bank or number of banks has power to add to the amount of circulation, nor thus to the value of property. But let these offers of increased issues, through a redundancy of money, be continually pressed upon the public, until interest falls and becomes established at a sufficiently reduced rate; sources of investment, or for the profitable employment of money, will then be *created*, which did not and could not exist at the higher rate of interest. In this way it seems impossible but that an increased circulation must, in the nature of things, tend to higher prices temporarily, and speculation on this result, after a satisfactory fall of interest, naturally *anticipates* the advance.

Section XII.

OF SPECULATION AS A CAUSE OF COMMERCIAL EMBARRASSMENT.

The commercial term *speculation* has both a good and a bad acceptation. When used in the first sense, it denotes that *calculation of the probabilties of profit or loss,* which should, and generally does, precede every commercial enterprise. The judicious exercise of this species of speculation is indeed the test of the intelligence of commercial men. It is that exercise, more or less formal, of the mental faculties upon previous experience, which decides the course of business men; or, that method of commercial *logic* by which every man who goes to market or to 'Change, satisfies his own mind that he ought to buy or not to buy, to sell or not to sell, or to do less or more of either at that particular time, rather than sooner or later.

When the *scale* of consumption of any commodity is supposed to be accurately ascertained from what it has been observed to be during a given course of years immediately preceding, the *stocks* being meanwhile greatly reduced, and the future *supply* being also ascertained by the usual means, or believed, to be deficient as respects such scale of consumption; the attention of all the parties interested is attracted to that commodity; all are desirous to possess of it more than their usual stocks; and capitalists, who have no interest in the matter beyond that of the employment of their superfluous capital, freely lend money to those who think they can use it profitably in these enlarged investments. The consequence is a considerable rise of prices; and the same result would follow a similar action of trade in respect to all commodities so circumstanced. Now, the natural effect of this state of things, if left to adjust itself,

is simply *to bring increased supplies* from all points *in proportion to the premium* presented in these *advanced prices*. If prices have risen to an extreme height, the *sooner, cæteris paribus*, will it rectify itself by the earlier and larger supply. This was remarkably exemplified in the case of the corn trade last year. There was in that instance evidently no need of any *extraneous* or arbitrary influence (for the protection of the *public*) to *prevent* the advancing price, even had such been politic or practicable. The advance proceeded on the *belief* of great scarcity,—a scarcity, too, which the event proved to be real; and if prices were too high in the absence of such supplies, the simple consequence would be their fall when, and in proportion as, those supplies arrived; but the commercial stimulus which brought that needful supply to our doors was the *advanced price*, and this was the natural consequence of *speculation*. In this sense, therefore, speculation must be considered as an *essential* and the *only guiding* principle in commercial affairs; one which ought not therefore to be arbitrarily interfered with; and one which, without producing a dangerous degree of confusion, cannot be thwarted: for it would appear to be, what may be termed Nature's *only* method of filling up a vacuum in the commercial stocks of commodities essential to human life.

The term, again, implies a *bad* application, when, without any deficiency of stocks, a number of persons combine together to produce an *artificial* scarcity of any commodity, by buying it up so as to advance the price for their own profit. But even in this case the commercial effect is, by means of such high price, only to bring a proportionately increased supply, and this is an efficient remedy: one also which very generally visits upon the speculators, without any extraneous agency, an extent of loss amounting to the fullest degree of punishment merited. But the public is protected equally in this, as in the other case; speculation

in both instances being, first, the cause of temporarily high prices, and, secondly, by that means, of a proportionate supply; which is the natural remedy for the evil of a high price, however produced.

When the supply which this advanced price procures, either arrives to market, or is in prospect—that is, when the apprehended *scarcity* is changed into an anticipated *abundance*—the effect is now in the opposite direction, namely, a rush of all parties to *dispossess* themselves of what recently appeared so desirable, and upon this action a *low* range of prices naturally ensues; but this action, too, is equally the result of commercial speculation. In the former instance, the calculation was one of scarcity and profit; it is now one of abundance and loss. The rushing *in* and the rushing *out* by speculators are governed by the same principle, and both acts are equally speculative in their origin. This principle operates with the same force in the money market as in that for corn or any other commodity. When a great abundance of money is in certain prospect, there is a speculative mania to rush out of the money market into all sorts of fixed investments which promise better interest: this drives up the prices of Government and railway stocks; and the increase of railways resulting from the latter, would only tend to reduce the profits and the high premiums through reduced *fares*,—the publicly beneficial consequence of increased competition. When a scarcity of money returns, or is in prospect, there ensues a panic in the opposite extreme, namely, to get out of those investments into *money* again; which forces up its value and forces down proportionately that of every thing else. But here, it must be observed, the effect of the advanced value of money to produce a foreign supply of *gold* or *silver*, (not being a proportionate advance of the *price* of *bullion*, but only a most disproportionate rise in the *rate* of *interest*) is quite inconsiderable compared with the force of that fo-

reign premium which is at the same time in operation to drain them away.* But with regard to the *grand cause* of wild commercial speculations, it may be remarked that a scale of prices of commodities, more *regularly* proportioned to the *cost* of *production*, is the best and indeed the only security for the more regular *supply* of such commodities, and *against* those alarming reductions of the required stocks in which such commercial speculations seem naturally to originate. Were prices governed by *the law of supply and demand* simply; were they subject to no *arbitrary* influence from the capricious action of the money market; an influence which we have seen compels a low and *unremunerative* price equally when commodities are scarce as when they are abundant; *production*, and consequently *supply*, would necessarily be more equable; and thus the chief stimulant to commercial speculation, namely, an *alarming reduction* of *stocks* of commodities, would *generally* be obviated. With reference equally to the main cause of wild speculations in *fixed* property, it may be remarked that these also naturally spring (as noticed in a previous Section) from the abundance and cheapness of money; which, unfortunately, continue long enough only to *generate* and *establish* the most enlarged scale of employment; by that means to extend consumption, reduce stocks, advance prices, and stimulate production; when *all* suddenly give place to the most formidable and unlooked for scarcity of money; which, *now* working to the opposite extreme, entails a reduced scale of consumption, unremunerative prices, and deficient production; until, after a slowly dragging term of unprosperous and comparatively unproductive years, money again has become established in sufficient abundance, employment and consumption again expand, and, with the stocks of commodities again alarmingly reduced, speculation

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* See note to page 57.

is rapidly renewed, and prices again advance. Thus, in almost regular series, the alternate vicissitudes of *speculation* and *ruin*, a *mania* and a *money panic* have naturally and almost necessarily involved and succeeded each other in cycles of financial periods which have been memorably distinguished in the history of commerce.

But as a general cause of the embarrassments of the year 1847, however much such an agency may have contributed to produce a commercial crisis in former periods, it will not be alleged that a general speculation in commercial commodities has been recently carried to so wild or undue an extent as to account for the scale of mischief produced. The large imports of *breadstuffs*—notwithstanding that contraction of consumption which must result* from so immense a proportion of the population, which had been fully employed before, being since thrown entirely out of work, in consequence of the suspension of industrial enterprise—have been, after all, little more than adequate to the average demand: as evidenced by the low state of the stocks of foreign grain and flour in the country at the end of the year. And yet this has been the chief article in which—owing to the stimulus imparted to the corn-trade by the appalling statements of her Majesty's Government in the early part of the year—the importations have been so greatly in excess of what they have been at any former period. The effect of such a scale of imports, the great bulk of which arrived during the summer months simultaneously with the confirmed prospect of an abundant domestic harvest, was naturally to produce a temporary depression of the corn market; but this effect was also greatly aggravated by the unusual *necessity* imposed upon the importers to *sell on arrival*, as the consequence of the comparative scarcity of money, and of the

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* The *testimony* of the *Bakers* is probably better evidence of this deplorable fact than the most learned *arguments* to prove the contrary.

general failure of those facilities on which the ordinary stocks of commodities in the ports had formerly been held.

Yet it is impossible to say that even this trade was *over-done,* had there not existed, besides the large temporary supply referred to, a more general cause of depression; and which affected the price of grain, to a great extent, only in the way in which the prices of every thing else were affected by that cause: a cause which has spread loss, discredit, and insolvency through *every* department of commerce, to a degree to which the failures in the *corn trade alone,* either in amount or number, bear a very insignificant proportion.

It is true that the commercial failures of the year 1847 may be said to have *commenced* with those in the corn trade during the summer: and, under all the circumstances, this was only natural. But so *few*, comparatively, have they been in that particular trade, that it seems impossible to trace to this origin the numerous failures in every other department which have since occurred; whilst the testimony of the aggregate banking community of London and of the provinces, supported by that of the Chancellor of the Exchequer, may be appealed to, as indisputable evidence that *another* and more *general* cause was in operation to produce such insolvency: a cause which it was distinctly stated by the highest authority that the *Treasury Letter* of the 25th of October was designed to remove: the purport of that letter too being defended by the writers solely on the ground of its being the only means of averting a more fearful scale of bankruptcy then menacing from the same cause; a cause, moreover, which was in operation so early as the month of *April,* before the failures in the corn trade had *occurred;* and one which *then* was relaxed only by the *timely reflux of bullion,* as it was subsequently by the Treasury Letter referred to: the effect of each process being precisely the same in both cases, namely, to allay *a panic* in the *money* market.

Section XIII.

OF COMMERCIAL IMPRUDENCE, AS AN ALLEGED CAUSE OF THE RECENT COMMERCIAL EMBARRASSMENT.

This charge against the trading community has been rested mainly on the circumstance of the *delay* which generally occurred, from the Bank of England downwards, in contracting the previous amount of commercial engagements on the commencement of the drain of bullion in connection with the food crisis. This contraction of and withdrawment from the previous scale of business ought, it is alleged, to have commenced in *January* at the latest. That those fortunate individuals who then, and even earlier, adopted this course, alone exercised prudence, and those who acted otherwise did not. On the part of those who did *not* so, it was, of course, to say the most, an error of judgment: for to suppose that the Bank of England and the commercial public acted *against* their judgment, is to charge them with a sort of commercial insanity and suicide. On the other hand, it must be admitted that *prudence*, which only arrives to the aid of a man *after* "the deed is done," is generally too late; and it is most unfortunate that those who have discovered this general imprudence, neither did so sooner, nor, therefore, offered earlier, in any unquestionable shape, their counsel on the subject.

But as to this imprudence itself, as a question of political economy:—what is the practical difference between the *prudence* commended and the *imprudence* blamed, on such high political authority? Let the case be supposed to have been the reverse of that alleged: suppose *all to have been prudent*, as it is intimated they might have been; that the Bank of England, on the 1st of January, 1847,

during a most buoyant state of the money market then existing, had suddenly contracted the circulation (the first efficient step under the Act of 1844), and had then raised the rate of interest *one* per cent., and that, instead of the few who then *did* take alarm, the whole community had done so. What now would have been the effect of this more general prudence—this withdrawment from business by the great commercial body? In the first place, was the prudence enjoined a *possibility* in the nature of things? Would not the attempt at its exercise on that scale, on the 1st of January, have exemplified the *greater* imprudence, (publicly speaking), of the two cases. But, first of all, was this practicable; could a whole community suddenly contract its engagements without occasioning the most frightful of panics? Can *all* simultaneously *sell out* whilst *none buy in?* Under such an impulse, could all the sellers of *cotton* and all the sellers of *yarn* act in this concert? The desire to sell naturally repels the wish to buy; even had not the resolution *not* to buy been taken before, as the universality of this prudence necessarily supposes. Those who escaped with their January capital whole, have undoubtedly cause for satisfaction. Had *all*, however, attempted to follow their more prudent example, it is not clear how either themselves or others could have escaped from even greater calamities. But as a question of political economy, what is the *social* result of the *moderate* exercise of this cardinal virtue, whenever suddenly resorted to? The effect is, of course, that as so much capital, up to the period of this prudential contraction, was employed as the only existing means of encouraging, in a greater or less degree, one or more branches of useful industry; the withdrawal of it becomes simply the cause of *throwing out of employment* just so many people as were dependent, in various ways, on the industry it had promoted: a loss, in the national sense, which can never be repaid, either to the

hapless sufferers themselves on whom these contractions always fall with the severer pressure; or to the country,—which loses just so much capital in the ratio of every such suspension of general industry.

But if there really exist a code of prudential maxims unknown to the commercial public and the banking interest with the Bank of England at its head, would it not be an essential piece of service to the country at once to publish it? Would not such maxims be equally useful at the commencement of *every* other year as well as of the year 1847—the present year for example? It is impossible to conceive of any thing which would be more acceptable or invaluable to the commercial public than to know, with any tolerable certainty, when to prosecute, and when to abstain from, the usual commercial enterprises.

Looking, however, at matters as they stand in the early part even of the present year, with prices of commodities and property so much below their cost and true value; looking also at the fallen value of money as the best practical evidence of the judgment of those money-capitalists who, from long experience and daily practice, *ought* to know most of these affairs—there would appear to be at least the *usual* justification and motive for an attempt, under such auspicious circumstances, to redeem, by an enlarged scale of operations, the losses of the past year.*

We now, of course, refer to the *ordinary* rules of commercial enterprise; which are obviously so inadequate to their end, however well versed in their philosophy and in the circumstances of a peculiar trade, a merchant may be: for it becomes necessary for every trader to understand not only his own *proper* business, but that of the banker also, in the most intricate workings of the currency. He must indeed,

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* The above paragraph was penned prior to the additionally perplexing political events which have followed the revolution in Paris.

it seems, from the allegations recently made on such high authority, understand the course of the money-market even *better than the Directors of the first banking establishment in the world*—the Bank of England. And even this high class of commercial knowledge does not supply all the elements essential to prudent commercial enterprise: the trader of every class must know, more familiarly too than some of the longest-established houses in that business, the whole condition and prospects of the *corn trade;* commencing with an accurate estimate of the present crops of this country and of all the world; so as to be able to determine for himself whether a *drain of bullion* from this cause, may not, after all, upset and convert into a source of ruin, the best conducted and the most promising enterprises.

Here, then, is a field for the hardest exercise of the most able minds, simply to discover what would be *prudent* as a *practical* commercial alternative. It is equally certain, however, that after all, the widest difference of judgment must still exist even on so vital a question. That there is even now scope for the greatest variety of opinion, is evidenced by the downward course of the money market, notwithstanding the *certainty* (as demonstrated by one eminent statist,* at least,) that despite the current disbelief, not to say, ridicule of any such estimate, *an import of foreign food, equally as great as in* 1847, *will again be wanted for the present year!* It may prove fallacious, but still this estimate has the voucher of the same respectable authority who, in the previous year, had as conclusively, and, as the event proved, *correctly,* (notwithstanding the then equally current ridicule of the idea) estimated the domestic deficiency of food for 1847.

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* The Editor of the *Economist.*—See that journal of the —— August, 1847.

The money market, it is true, is now acted upon by the temporarily depressing influence of the law of *supply*. If, however, the estimate, or *half* the estimate referred to, of the wants of the country in respect of foreign food be near the truth, that alluring plenty in the money market, with all the commercial enterprises which had depended thereupon, must, of course, be pronounced fatally premature. And, if it be *not* so, still by what means may this be known for the *present* action of the trader, until it has become too late to act at all; until he has either missed the favourable opportunity, on the one hand, of recovering some considerable portion of his recently lost capital, or incurred, on the other, the yet greater evil of making himself a bankrupt?

That numerous instances of commercial imprudence are *always* to be found, it were idle to dispute. That, however, is not the point mooted. Such cases are not now alleged to be of more than usual frequency. Probably in no year more than in the commencement of 1847 had the state of the stocks of commodities generally, in connexion with the then existing scale of demand, presented, in the best judgment of the majority of persons in trade, a fairer prospect of satisfactory returns to the fullest extent of any imports made, or transactions entered into, since. Even the few existing exceptions to this rule are cases where probably little loss would have ensued on the enterprises, had not that loss resulted from *a sudden suspension of the demand for all commodities*, proceeding from *an arbitrary cause beyond the control of commercial prudence*, considered with reference to its *general* exercise.

Section XIV.

OF THE FAILURE OF CROPS, AS A CAUSE OF NATIONAL EMBARRASSMENT.

The loss of the potato crop last year, considered in itself, was simply a loss of the *capital* expended, in wages, rent, or other cost of production, by the farmers who sustained it. It fell with various degrees of pressure upon the different sufferers. To some—the cottiers of Ireland, chiefly—it was the loss of every thing they possessed—a destruction of their whole means of subsistence. To the better class of farmers, who had other crops, and who depended partially only on that of potatoes, the effect was quite different. The failure of potatoes was to many of these farmers an immense, and to the majority a considerable, *increase* of capital: owing to the quadrupled value of what was saved of potatoes; the doubled value, during a great portion of the year, of all other agricultural produce; and its much higher average value during the whole year, compared with the average prices of several previous years. It will not probably be disputed that the farmers, as a class, are the only one, excepting perhaps the monied capitalist, who have, during the year 1847, added greatly to their previous capital. The *remedy* of the loss, as respects the Irish cottiers, was public charity, aided by an increased demand for labour, which should offer to the sufferers the means of subsistence. The last would have been a perfect remedy for the damage done to that class through the potato famine. With full employment (*always* till then denied), and on adequate wages, even the cottiers of Ireland must, like the wealthier class of farmers, have *gained largely* by the calamity.

The effect of the evil was felt in the same manner, though in a less degree, by the labouring population of

England; that is to say, the high price of food diminished their means of purchasing, and deprived them of their usual quantity of the necessaries and comforts of life. What, then, was the appropriate remedy for the evil in this case? The same, obviously, as that for the case of the Irish cottier, namely, *extended employment*, and a rate of wages commensurate with the advanced price of bread.

But another question arises, namely, what was the effect of the loss of the potato crop upon the *national capital;* and, what was its natural remedy in that respect? That loss, unquestionably, was one of so much national capital: not to the *farmers*, as a body, but to the *consumers* of agricultural produce; yet, unless replaced by an equal *addition* of capital from some other source, it was still a *national* loss. How then could the loss, in this view of it, have been best repaired, conformably with the laws of political economy? The only answer is, *by putting to work an additional number of the unemployed*—a number adequate to the production of an amount of new capital corresponding with that which had been lost, and which otherwise would not have been produced. The real value of property being simply that of the labour bestowed upon it—labour, usefully applied, which should cost some 20 to 30 millions, is a creation of so much capital; and, if it be the produce of labour which would not otherwise have been employed, it is clearly an actual *gain* of so much capital; by means of which, the loss of the potato crop, in the national sense also, would apparently have been appropriately and completely balanced and repaired.

The substantial value of all property is the industry bestowed upon it, and which renders it marketable. The real value of gold is the cost of the labour employed to find it. The value of an estate is the cost of the labour employed in its improvement and cultivation. Neither gold nor land has any real value until thus rendered marketable.

The substantial wealth of the country is just so many turns of the spade, so many strokes of the pick or the hammer, so many movements of the implement of industry. Every one of these is a real, and the only addition to the national substance; the more of them the more property; there is no substantial wealth but from this source; and the *market value* of the produce of such labour is *the only working capital* of the country. Every highway or railway made, every field brought into cultivation or improved, every mine opened and worked, every tree planted and felled for use, is a certain and the only addition to substantial property; it becomes capital just to the extent of its value in market; the profit represented in this price or value, is the motive and natural premium regulating the quantity of such industry, and is itself regulated, as we have seen, by the interest of money. High prices, or money value, the result of full employment, full wages, and, therefore, of the amplest means of consumption, are the surest evidences of an increase of national capital; as they are the most certain forerunner and stimulant of more abundant reproduction and lower prices, until another reaction occur from a yet wider expansion of the field of employment.

A vigorous prosecution, then, of the railway system, for example, or other useful addition to the national property promising an adequate return, must thus have been the most complete remedy for the national loss sustained by a failure of crops.

The argument of a later Section will be directed to show that such proportionately extended scale of industry must have had the effect of augmenting the demand for, and consequently the value of, *labour*, to at least the difference in the price of food; and, if so, this mode of compensation was clearly all that the labouring classes required as an equivalent for their loss: the increased activity of commerce would have equally compensated all other classes; and the

national capital would have gained, by the same means, an addition at least equivalent to the loss which, in that respect also, had to be repaired.

And, perhaps there is no aspect of a financial crisis which it is more painful to contemplate than the circumstance that, whenever such a crisis overtakes the country, as the consequence of an export of gold to purchase food from abroad, the privation of *dear bread* is a hundredfold aggravated by the very general suspension of employment which attends it as the consequence of *dearer money*. The formidable calamity of high-priced provisions is even tolerable when it merely exacts from the poor some increased *portion* of the week's earnings; but when accompanied by the reduction of wages to one-half in many, and by their total cessation in many more, instances, the poor must feel the pinch of poverty to a degree with which the former case bears little comparison. Thus, dearness of *food* is unquestionably a national evil of great magnitude, but the dearness of *money* is by many times told the greater calamity. This *multiplies the miseries of the wretched, and allows no class of society to escape.*

A system of currency which demands this national endurance on every temporary export of a few millions of gold may be, as alleged, a necessary evil. It will not be denied, however, that it is a most dreadful one; nor that the system, except as it professes in compensation to secure the convertibility of paper into gold, is in many other respects in direct hostility to the best interests of the country.

Section XV.

OF A DEFICIENCY OF COMMERCIAL CAPITAL, AS A CAUSE OF THE RECENT FINANCIAL EMBARRASSMENT.

The present exhausted condition of trade is broadly asserted, on very high authority, to have proceeded, not from the recent *scarcity of money*, but from *a deficiency of commercial capital*. We have already endeavoured to show how a general reduction of the previous capital of the country results *necessarily* from a deficiency of the circulating medium. The effect of a deficiency of capital has now to be considered. It has indeed been stated, almost in so many words, that the recent applications to the Government, for a relaxation of the Act of 1844, really meant that the Government should provide for British merchants, destitute of capital, the means of conducting their business. It would appear that the discovery had at length been made, that the immense commerce of England, contrary to her long established reputation, had been for an indefinite period conducted with inadequate, or without, capital.

Amongst the thousands of British firms justly reputed to be solvent and wealthy, it is true, and may without prejudice to this argument be admitted to the fullest possible extent, that frequent exceptions have recently been more prominently before the eye of the public. But may we not ask, Is it either *generous*, *just*, or *wise*, in a case of so much national interest, to ground a *rule* upon the *exception?* Would it not indeed be equally a mark of wisdom to resolve, that because *individuals* of a community had been proved dishonest, all the rest must be so too? This grave charge against the British commercial character, it is to be hoped, may be either supported on sufficient evidence,

or publicly withdrawn. It at least involves something *new;* and the cause of so great a decay of our national distinction in this respect, if proved, is of adequate public importance *of itself* to demand a *second* Parliamentary Committee of investigation.

With reference to this charge, it may be observed, that it implicates either *the whole* commercial body, or only *that portion* of it against which it has been *proved.* If it be intended to include the whole body, the charge can, at most, amount only to a general calumny: for the statement is one which does not *admit* of proof; and must, therefore, in so far as respects the mercantile body generally, have been originated on no evidence whatever: on the other hand, the *presumptive* evidence bearing on the case tends in the opposite direction; for it would seem impossible to reconcile with the alleged circumstance of an original deficiency of capital the more *public fact,* that so large a proportion of the commercial body (perhaps 90 or 95 out of every 100), measured either by the *number* or by the *capital* of mercantile firms, should be so well able, as they have proved to be, to maintain their standing in spite of so immense losses as the great depreciation of property must have entailed upon *all,* limited only, in the majority of cases, by the scale of business transacted during the year 1847.

If the charge be intended to include only those *individuals* of the commercial body against which it has been *proved* in bankruptcy and otherwise, the charge *itself,* of course, acquits the *general* community; whilst in several even of the recent public cases of insolvency it is equally notorious, that they had occurred with an admitted *surplus* capital in hand, and, in consequence, solely of the withdrawal of the usual monetary facilities from trade,—a process which, as we have seen, was *intended* to accompany the co-existing contraction of the circulating medium.

On this point—the fact and consequences of this con-

traction—it is unnecessary to repeat here the evidence adduced in the previous part of this enquiry. And admitting, for argument's sake, that the applications for a modification of the Bank Charter Act were made, with the belief that the effect would be the *creation* of an artificial supply—not of the usual *currency* but of mercantile *capital*—it will be sufficient for us to enquire, *on what ground* was the Act at length rescinded; and how such an hypothesis is to be reconciled with the ground of justification *pleaded* by those high official persons, upon whom the reluctant duty of suspending it devolved, by an admitted public necessity?

But even were the alleged deficiency of commercial capital to be proved, the position would still remain for proof, *how* the recent scarcity and dearness of money could be resolved into that cause; for from such a cause (had the currency, as we must now suppose, remained *undiminished)* a *redundancy of the circulation*, and a *lower rate of interest*, must rather result, as the following example may shew:—

A is a merchant possessed of capital or goods of the value of £50,000. B is another who has lost all his capital. Both have £20,000 of payments to provide for in the month; and both apply to the same banker, who finds them money. B occasions evidently no more *demand* for money than A; nor would that demand for money have been in this instance increased, had B possessed capital as well as A. The refusal of money to B by the banker would be a sufficient cause for his stopping payment; but it must leave the larger sum for general employment in the banker's hands: which, other things being the same, would tend necessarily to *lower* rather than to raise the value of money.

But B, also, we will suppose, had, a few months previously, capital of the value of £20,000; and A, then, had £80,000. The general depreciation has, however, reduced A's capital to £50,000, and destroyed B's altogether. This

depreciation having in some such ratio affected all commercial capital, general discredit having ensued, and bankers having, in consequence, withdrawn the former money facilities from their customers,—this change of circumstances would readily account for an increased scale of bankruptcies; but it obviously could not account for a co-existent dearness of *money*. Its tendency is quite opposite, namely—to *lessen the use*, and consequently to *reduce the value*, of *a given amount of currency:* for the capital of the country being as distinct from its currency as the vehicle is from the thing conveyed, a *curtailment* of *capital* involves a proportionate *redundancy of currency;* and thus a sudden dearness of money can be accounted for only by the *greater amount of capital transferred*, the *greater activity of trade*, or a *reduction* (actual or apprehended) *of the currency*.

The circumstance of parties destitute of capital bidding higher for money on that account, does not apply as a cause of its *recent* dearness. It simply raises the question of *securities:* It has not been attempted to show that latterly such needy parties have been more numerous than in former periods; it is admitted rather that the most notorious cases of this kind were of *many years'* standing. It would therefore appear to be just as correct to refer to that *permanent* influence on the money market—the *superabundance* of currency in 1844 as it is its scarcity in 1847.

The advance of interest in April and in October last could have occurred only in a great *scarcity* of *currency*, or in a greater *superabundance* of capital in course of transfer and an equally superabundant supply of bills of exchange. But had the usual supply of bills of exchange fallen off, so that the usual demand for them was in excess of that supply; or in character, so as to cause them to be declined by the discount houses where they had previously been current; it is naturally impossible but that the rate of interest must have been *lower* after, than before, this contraction of

the demand upon, and the employment of, the same given amount of currency. The increased competition to discount the *un*-exceptionable class of bills must, under such circumstances of their comparative scarcity, have caused the rate to fall; and every kind of *unexceptionable* property or security, owing to the diminished quantity to be transferred, comparatively with an undiminished quantity of currency, must have *risen* instead of falling in value universally. Such, however, were not the effects. The rate of discount of the *best* bills and the rate of interest upon loans on the *best* securities, at reduced valuations too, were uniformly high in the extreme. The fair conclusion, therefore, seems to be, on this view of the case also, that the great deficiency to be complained of was *the failure of the usual supply of currency.*

Section XVI.

OF THE AMOUNT OF CURRENCY EMPLOYED IN THE RAILWAY EXPENDITURE.

Taking the railway calls *paid* during the year 1847, at the sum of £30,000,000*, or an average of two millions and a half per month; we have now to enquire what addition to the demand for *money* (as distinct from capital) this payment would have caused; or to speak more practically, what portion of the active currency was adequate to, or could have been employed in, the whole payment?

The true answer to this question, of course, can only be found by means of tracing out the *channel* in which these payments would flow between their source, the banks, and the locality of the works in progress.

The peculiarity of such railway disbursements is, that they consist almost entirely of *wages*, paid to *the lowest class of labourers*. The payments are therefore made weekly; from the labourer's pocket the sums paid go weekly to the baker, butcher, grocer, and mercer of the village or town adjacent to the works; from the tradesman they pass to the farmer, manufacturer, or importing merchant; from these they immediately return to the provincial and London bankers; and in the hands of bankers, they are *again*—as the deposits of the same railway companies were previously to being drawn out for these disbursements, and as all other bank deposits are—available to the public. Of the currency employed in the railway payments, the return through these various channels to its source, the banks of deposit, is as

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* The Chancellor of the Exchequer, in the recent Debate on the motion for a Committee of Inquiry, said—"The sum paid during the years from 1841 to October, 1847, for the construction of railways, amounted to £80,000,000 or £90,000,000 of money." From this return, the sum of £30,000,000 for the *last* of the *seven* years, can hardly be deemed too low an estimate.

certain, regular and rapid as is the accelerated course of rivers to the sea, when swollen by, and in proportion to, the fall of copious rains.

If, then, we may take these weekly payments to amount in the year to £30,000,000, the *utmost* amount of currency which they could possibly employ, *must*, it would seem, be under £600,000. So small a quantity of coin or bank notes, as a matter of *currency* merely, would evidently be adequate to effect the whole payment: for £600,000, multiplied by 52 weeks, gives £31,200,000 for the year. The same £600,000 would also perform an equal amount of service in 1848, in every following year another equal quantity, and would for ever after remain the same undiminished £600,000: just as a train of railway wagons, were the whole as easily kept in repair, would constantly perform the same amount of transport, per day or per hour; and after conveying an incalculable number of tons weight of goods, would still continue to be a train of wagons of the *same* capacity for carriage.

But the employment of £600,000 of currency for such railway purposes, supposes the wages of the labourer always to rest in his pocket the *greater part of the week;* whereas, it is the almost universal custom for the week's wages to be paid to the workman on the day on which he also makes nearly his whole week's markets and payments; so that the amount employed in the railway payments would generally almost be no sooner out of the Bank of deposit than paid, through the labourer, to the tradesman; thence into the local bank again, or direct to the wholesale dealers, and by them to other banks: For, as a general rule, when the *till* overflows beyond the usual reserve, money goes into the bank (for safety and saving of interest), or is paid away again, *on the same day* on which it reaches the tradesman or merchant. The week's railway disbursements would thus occupy, instead of *six*, scarcely *three* days in travelling its

whole circuit. Only £300,000, then, would in this case be required: and even this is supposing the portion of the circulation so employed to be absolutely *detached* from the general circulation during such three days; which is evidently impossible: for, no sooner does the sum leave the labourer's hand, than in the tradesman's or banker's, as before leaving the latter in the first instance, it mixes with the general current of circulation for every other purpose also. As belonging to that portion of the circulation which is *constantly active*, it may be said never to be idle, not only *whilst*, but immediately *before* and *after*, performing the momentary functions assigned to it of distributing the capital expended upon the new railways.

How beneficial, then, compared with the smallness of this demand upon the currency for the construction of such works, even upon their largest scale, must be the influence of these annual payments upon the whole revenue, trade, and prosperity of the country: for amongst those interests it becomes the circulation, not of £300,000, or £600,000 of *currency*, but of £30,000,000 of *capital*. 600,000 men employed on new railways, if paid on the average twenty shillings a week (whether in money or kind), would receive and spend in the year the *whole* of this £30,000,000. If, on the other hand, these 600,000 men, representing with their dependant families *three millions* of the population, had wanted the employment which had been created solely by this expenditure, and had in consequence been thrown on the parish allowance of some three or four shillings a week; the general consumption of manufactures, produce, &c., must have been reduced by some £25,000,000 during the year, and the revenue in the same proportion;—a sum equal to nearly *one-half* of our total foreign exports: to say nothing of the consequent increasingly wretched condition of the labouring population, arising from so much additional privation, indolence, and crime.

Section XVII.

OF THE TRANSFER OF FLOATING, TO FIXED, CAPITAL, AS A CAUSE OF DEFICIENCY OF CAPITAL, AND OF THE RECENT SCARCITY, AND HIGH INTEREST, OF MONEY.

The *creation* of *fixed capital* is not a *transfer*, much less an *absorption*, of so much *floating* capital: that is, it does not necessarily imply *a reduction of the latter by the sum added to the former*. It is a simple *addition* of so much fixed capital to the previous aggregate capital of the country.

The cost of erecting a dwelling-house, of clearing and draining land, or of making a public road, is not so much taken absolutely from floating capital. It merely circulates that sum from one, to another, class of the owners of floating capital. The amount can in no sense be *absorbed*, unless it be exported abroad, without a return. And the national result of this circulation of floating capital is the *addition* of so much fixed property to the national stock, yielding an additional annual revenue.

It is thus with Railways. The expenditure of £30,000,000 for these works, in 1847, would circulate amongst manufacturers and producers that additional sum; whilst the railway works themselves would remain, *as so much new property thereby created*, to represent to the owners the capital expended upon them. The expenditure, in so far as it had been employed at home, had gone to reduce more rapidly the accumulated stocks of manufactures and produce; and, supposing the *additionally* employed labourers to have been otherwise *unemployed*, it became *an addition* of so much *to the means of general consumption*.

The *ultimate profit* of the numerous railway under-

takings, let it be understood, is not the point which we are now called upon to discuss; that point, it seems, is fully admitted on both sides.* The annual return from the investments may be supposed to be even 20 per cent. without affecting the argument before us; which—as raised on the opposite side—is simply, that as the *whole* sum invested does not return in the year; does not, in its *entire amount*, form part of what is termed "*the current income*" of the year; the capital so invested becomes, in the first place, *fixed*—(which is not denied); and, secondly, that it is so much *absorbed absolutely from floating* capital, diminishing, by nearly the same amount, the previous quantity of *floating* capital in the country: which is the question at issue.

In this view of the subject, the distinction between laying out capital in railways, and doing so in property to be again converted into money within the year, is thus summarily explained:—

"It is the difference between a merchant buying £1,000 worth of commodities, which he sells again and is repaid with profit, and one who with £1,000 builds a house, which *though it ultimately pays him a good interest*, is *absolutely sunk and abstracted from capital:* for all those who received the £1,000 only did so to replace their own capital and *profit*."†

The mistake of this writer is apparent—first, in the oversight of the immense commercial importance of the *profit* to which reference is made in the passage just quoted,—when that profit is the result of any such greatly-increased public expenditure as that represented by the

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* "We are at once free to admit, that there has not been any purpose to which the spare capital of the country has ever been applied, or to which it can in futnre be applied, so well calculated to promote all the great interests of commerce, industry, and social improvement, political stability and general happiness, as railroads; or which is so well calculated rapidly to reproduce, in many ways, the national capital absorbed in their construction."—*Edit. Economist, Oct.* 4, 1845.

† *Ibid.*

payments for railways upon a scale of *so many millions per annum*:—a view of the subject which would more readily escape detection, when illustrated by the effect supposed to be produced by the expenditure of so inconsiderable sums as those of £1000; and, secondly, in the oversight of what constitutes *capital* essentially and practically,—namely, the *market value*, not the *quantity*, or *bulk*, of the national property.*

To give the true effect to that illustration, it is necessary to suppose that the merchant referred to, represented the entire nation in its industrial and commercial capacities; that the merchant was the *same party* who *sold his* £1000 *worth of commodities*, and expended £1000 *upon a house*; but that the commodities so sold annually amounted to some 1000 *millions* sterling; and that in place of the new house, the new railway works required an increased outlay of some 30 *millions* per annum. This outlay would pass through the pockets of the great mass of consumers; and, in doing so, would create *so much additional demand* upon *the same given stocks of all commodities*; the effect of which, of course, could only be some relative *per centage* of *advanced value* of, and *profit* upon—not only consumable articles of food and manufactures—but on the rents and value of houses, on the stocks and traffic of railways, and the income, and, consequently, the *value*, of all property: which value is *the only measure* of, and *the limit* to, the *quantity* of *available capital*. This *increase* of capital, when in proportion to so immense an addition as that of 30 millions annually to the national means of consumption, must be some enormous amount. The *loss* of some 30 millions value of the potato crops, through disease, *added* two or *three* times that sum to the total value of *all other* agricultural produce; and the additional *demand* for all productions, to the extent

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* See Section III.

of 30 millions of annually augmented public expenditure, would necessarily have some proportionate effect in augmenting the aggregate return from *all* domestic property; whilst the demand for *foreign* productions, also increased by the same expenditure, would supply other countries with a sufficient motive and with the means of paying the advanced price of our manufactures, when promoted by this mutually beneficial process.

The idea of "the *absolute conversion* of floating capital into fixed capital by railways," would seem to approach the nearest to being realised, by supposing the sum expended thereupon to have been *loaned to a foreign country* on the inducement of a high rate of interest. The capital so lent would be *sunk*, absolutely, in so far as this country was concerned. There would be no return besides the annuity. The capital then would not pass simply from the *right* to the *left pocket* of the nation; it would *pass away* bodily. It would not continue to circulate from one class of floating capitalists to another, in this country, as the domestic railway expenditure now does. It would be an "absolute conversion" of so much *floating* into *fixed* capital.

But in this form, also, it would be impossible to arrest the beneficial influence of the *indirect* circulation of the capital even when lent for similar employment *abroad*. An illustration of the working of the expenditure in this shape, viewing the subject *commercially* only, is furnished in the history of the stimulating effects upon the commerce of other countries, produced by the loan of some 30 millions sterling by British and other capitalists to the United States during the few years previously to 1837. These sums were borrowed to be employed chiefly upon public works. They could only be so employed, of course, by increasing the means and expenditure of the American population; and that augmented expenditure could only occur in connection with an equally increased consumption of all do-

mestic and foreign productions. And the natural consequence was, that the *imports* from other countries into the United States exhibited, up to the year 1839, the most remarkable increase.*

We regret the necessity imposed upon us to dissent so far from the opinion of one of the most practical writers of the present day on public questions of this nature. But from the great influence which the arguments of the *Economist* newspaper have had, in withdrawing official and public attention from the deeper and more obvious cause of the present commercial distress, the error espoused on this subject is one which can neither be too much deplored, nor too early atoned for; and is withal so important, as to require the fullest possible investigation and exposure:—to which duty we must now address ourselves as we may be able.

And to draw the inquiry somewhat closer, we shall proceed to consider, in the next place,

THE EFFECT OF THE RAILWAY PAYMENTS, UPON THE MEANS, OR CAPITAL, OF THE SHAREHOLDERS.

First of all, let us inquire who these parties are?

In part, then, they are the *proprietors of manufactories*, the *growers of produce*, and *the trading houses* of the country.

They are, also, the eminent and wealthy *capitalists* of

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* The Imports, from the years 1832 to 1844, were—

In 1832, of the value of	$101,029,266	In 1839, of the value of	$162,092,132
1833	108,118,311	1840	107,141,519
1834	126,521,332	1841	127,196,177
1835	149,895,742	1842	100,162,087
1836	189,980,035	1843	89,260,895
1837	140,989,217	1844	108,435,035
1838	113,717,404		

Macgregor's (Board of Trade) Statistics, part 15, *page* 973.

It is observable, too, that this remarkable activity and prosperity of trade, were only interrupted by the same agency as that which has, in 1847, *depreciated* all the fixed and floating capital of this country, namely, a contraction of the currency, and a money panic resulting therefrom: which in 1837, and again in 1839, so greatly reduced, and for so long a period kept down, the value of all American property, and particularly that of the works in question.

England—parties who, in former and poorer periods, have been able, almost without an effort, to contribute 100 millions* sterling, in the year, for the national expenditure in a wasteful war, which left no property at all to represent those contributions; capitalists who, until the railway system presented itself, had not sufficient objects of domestic investment; and who, when the national capital—deposits with bankers and bill brokers, general property and its market value—had increased, as the constant result of cheap money and abundant employment during a series of prosperous years, had thus accumulated an immense surplus seeking investment; which, in the absence of adequate domestic attraction, had usually gone abroad *to augment the fixed capital of foreign countries.*

These are the chief sources from whence the railway calls are drawn. It is alleged that they have been inadequate to this demand upon them. What then is the nature of the evidence required to support such a statement?

When any marketable commodity becomes redundant, or exceeds the demand for it, its market price falls in the same ratio. Capital is a marketable commodity depending on the same law. When redundant, it is cheap in that proportion; and such was the case in 1844 and 1845, when the periodical demand for objects of investment returned, and fixed upon domestic railways as its most favourite object To that attraction, as we have before stated, the country seems to have been solely indebted for *the retention of its capital at home;* otherwise, an immense drain of bullion in 1845,

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* "By a Parliamentary Report we find, that from 1802 to 1816, the annual expenditure averaged £75,696,669; and further, we find, that in the five years between 1810 and 1816, we expended £477,548,714, or a yearly sum of £95,509,743. Taking our present average annual expenditure at £45,000,000, we find that in those five years, 1810 to 1816, it exceeded that of five years now by the enormous sum of 250 millions sterling, and that in a way which was absolutely sunk, and was for ever unproductive. *This took place at a time when the resources of the country were infinitely less than they are now.*"—*Economist*, of the 4th Oct., 1845.

as in 1825, must have been the consequence; leaving the country destitute of specie to purchase food from abroad for the formidable scarcity of last year.

This abundance of capital continued until 1847, except when interrupted by the Bank rise of the rate of interest in October, 1845, and by the retention of the railway deposits by the Government in February, 1846. Its chief *surplus* is now, however, dissipated and lost through the general depreciation of property—as explained in earlier section. But the conjunction under which the expanded railway system *started*, was that of *super-abundant capital* and *cheap money*. And there can exist no possible evidence of *a scarcity of capital*, when, with *a full circulation*, and *a full reserve in the banks*, money *continues* at its *lowest* value. Such, with the exceptions specified, was the case until 1847.

But to test the alleged *absolute absorption* of floating capital in railways, by an extreme case:—

It is worthy of remark, that even taking the cost of the new Railways at 500 millions sterling, or at the full amount to which bills had been applied for: supposing them to have been commenced with the intention of completing the whole in ten years; and supposing the subscribers to them to be persons of every rank in life, and to have had no object in view but that of securing the best investment for their *prospective* savings, it is probable that the *whole* of the lines might, within the time, have been completed, without the suppoed difficulty, in so far as the question of *capital* alone is concerned.

For if, out of an aggregate population of 30,000,000, we allow *two millions* only of Railway subscribers, varying in their respective contributions from £50 to £10,000—each sum being divided into equal yearly payments for ten years—the whole cost, by means of such distribution, might apparently

be raised, and without an exhausting effort.* Nor is it an extravagant supposition that the *augmentation of income to the entire population* resulting solely from the Railway stimulus, on so grand a scale, to employment, production and commerce, would, in ten years, *create the whole of the capital required.*

It would perhaps too be difficult to shew a more advantageous investment both as respects the projectors themselves and the country at large; nor, with our ever-redundant population, (notwithstanding the considerable annual draughts from it to foreign lands), would there be reason to apprehend any real danger that labour would thus be too much withdrawn from other industry: for, the first effect of the constant demand for, and full wages of, labour *at home*, would be to arrest the tide of *emigration*; and divert into our own fields that immense mass of

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* The subjoined scale of railway contributions may further illustrate the subject as put by the extreme case supposed:—

Number of Persons Contributing.	*Total Contribution of each Person.*	*Annual Payment.*	*Total £.*
500,000	£50	£5	25,000,000
400,000	100	10	40,000,000
300,000	150	15	45,000,000
200,000	200	20	40,000,000
100,000	250	25	25,000,000
90,000	300	30	27,000,000
80,000	450	45	36,000,000
70,000	500	50	35,000,000
60,000	550	55	33,000,000
50,000	600	60	30,000,000
40,000	650	65	26,000,000
30,000	700	70	21,000,000
25,000	750	75	19,000,000
20,000	800	80	16,000,000
15,000	900	90	13,000,000
10,000	1,000	100	10,000,000
5,000	2,000	200	10,000,000
4,000	3,000	300	12,000,000
3,000	5,000	500	15,000,000
2,000	6,000	600	12,000,000
1,000	10,000	1,000	10,000,000
2,005,000			£500,000,000

See also note to page 96.

It is more than probable, however, that the whole of the outlay would be subscribed by less than 5000 capitalists, in sums varying from £10,000 to £200,000 each: in which case 5000 subscribers, averaging each £100,000, would furnish the amount required.

British sinew and bone, (the true source of all national wealth), which, with the British capital and skill often accompanying them, now go to enrich with their industry foreign and rival nations.

To confirm still further the position we have endeavoured to maintain in this enquiry, it will now be necessary to examine into

THE FINANCIAL *process* OF THE RAILWAY PAYMENTS.

Let us then assume the railway calls and disbursements at the high estimate of *one million sterling per week*, or 52 millions per annum: and, let us suppose that, the circulation being otherwise full, one million sterling had been added to it *by authority*, for the express use of new railway works alone; that it were possible to restrict this extra million to that service only; that on a given Friday the railway companies together drew one million from their several banks of deposit for disbursement; that it took a full week to overflow the tills of commerce and return again to the banks: so that, on every following Friday, the same million was again ready for distribution; and, being *in excess of a constantly full circulation*, there was *no other* field of employment for it besides the railway works.

We may now suppose further the existence of only one national bank, with provincial branches, and then inquire, what is the power of this million of extra currency?

We may next assume, also, that the railway stockholders, had (as alleged) really exhausted all the capital they could spare from their general business; and this, after payment of the *first call*, which, in the aggregate, had made up the first million for the weekly railway expenditure. This million has been drawn by the stockholders from their reserve in the Banks—has been disbursed by the Railway Company—has returned to the Banks again—is now seeking *fresh employment*, and—the shareholders are seeking *money*.

The general circulation being full, and money consequently cheap, say at 3½ per cent for long loans, whilst the average prospective return from the new railways when completed is 10 per cent., the premium on the shares being proportionate; the banker is now glad to say to the shareholder,—"Bring me the Railway Company's receipt for the call paid, with a transfer of the shares as security: I will then advance the second call." Another of the weekly payments is thus effected, and the million of currency has again returned to its source, the Branch banks, by whom, from every point, the circumstance is communicated to the head establishment.

It will now be evident that one thing only is required to keep up this process of payments, for the progress of the new works, namely, that the original prospect as to their ultimate return to the owners, and the quantity and value of money do both continue unchanged: for the works themselves, as fast as they advance, would then be capable of furnishing the only capital *absolutely* required from *their projectors*.*

And now arises the main question at issue: From whom come, and to whom belong, these weekly deposits, as they reach the Banks again through other hands than those which borrowed them weekly for railway purposes? The accumulated deposits of the United Kingdom were recently some 300 millions sterling. The sum is now increased,

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* This extreme case may be more particularly exemplified thus:—

A merchant, who has £10,000 in his business, subscribes, we will suppose, the *whole* sum to a new railway project, which promises to pay, and, when completed, does pay, 10 per cent. per annum. He is unable to spare so much of his business capital: but the stock being at a premium corresponding with its value as an annuity, he is able to borrow upon it considerably *more* than the sum subscribed by him, and at a rate of interest which still leaves him a great profit as owner of the stock. In this way the *nominal* investment *even of his whole capital* (and a great deal more), *might* become, instead of an absolute abstraction of so much from his business, a *positive addition to it to a very large amount*. It is also true that a great advance of the rate of interest would essentially and entirely *destroy* the greater portion of such capital; but this circumstance would not of course amount to a proof that the capital so destroyed *never had an existence*, but the contrary.

we are to suppose, at the rate of one million per week, or 52 millions in the year. One million of circulation has been found to be fully adequate to the whole railway payment, as a question of *currency* merely. But that is not now the point. Our present question is as to the *nature*, the *source*, the *sphere*, and the *owners* of these augmented deposits?

First, their nature is, that they represent *the additional quantity* of produce and manufactures, of fixed and floating capital, used or consumed, *at higher prices*. Their source is the Railway *expenditure*, which augments *the means of consuming*, and the demand for, all productions at advanced prices. Their sphere, whenever lodged in the Bank, is *that employment* (as loans for various industrial pursuits) which *may promise the best interest* to the banker.

The nature of these deposits, then, is, that they consist of that augmentation of profits or income derived by the commercial public from an increased consumption and use of all commodities, not only as respects the railway labourers, but by *the total population*. The enhanced *demand* must augment proportionately *the value of all that is consumed;* whilst the aggregate gain therefrom would be some given per centage of increase to the total capital, fixed and floating, of the empire.

The extra expenditure *of* 52 *millions per annum for ten years* must, in fact, *insure ten years of unexampled commercial prosperity:* the necessary accumulation of capital from which, on the most moderate data, can scarcely be computed at much below the entire sum expended on these most useful of national works.* For it must be remembered that by this agency fixed property of *every kind* would be

* For illustration, were we to take the present population of the United Kingdom at 30 millions, and the present average expenditure at only £15 per head, we arrive at a *personal* annual expenditure, for the whole kingdom, of 450 millions sterling. Let us now suppose the increased means of the population, derived from the railway stimulus to commerce, to be 10 per cent. only, the aggregate increase would thus be 45 millions sterling per annum.

proportionately augmented also,—first in value, and then in quantity,—so as to supply the increased production of commodities now required.

And who are the *owners* of these now augmented bank deposits? They are still, of course, that class of railway projectors or shareholders which is composed of agriculturists, merchants, manufacturers and tradesmen; that class which, for argument's sake, we at first assumed to have entirely exhausted its commercial and floating capital; but which has now gained the valuable addition, represented by the sum of these augmented Bank deposits, to its own and to the national capital.

It would seem indeed to be beyond dispute, that ten years' run of such unexampled industrial and commercial activity must result in a proportionately augmented capital; that such increased capital must be distributed over the entire trading community; and that it must belong, therefore, to that class, which, instead of having, as it had been alleged, *exhausted*, has actually *augmented* the commercial capital of the country; and this, too, in a greater ratio probably than that in which fixed capital had been augmented by the immense addition to it of the great railway system. Indeed, we may safely put the question whether, except by that very *process* which we are now endeavouring to illustrate, it be *possible to make* an addition to the *floating capital* of the country?

It is unnecessary to add that this *augmented* and *sustained* national activity must tend, more than any other circumstance, to increase proportionately the daily travelling and traffic on the new railways as they came into play. Thus the only remaining contingency would be best provided for, namely, the direct *profit* to the railway shareholders *from the works themselves*. And even here a wide margin is left for possible disappointment: for supposing that—from reduced fares, the effect of such increased competi-

tion, or from the cost of the works exceeding the estimates—the average return, instead of being *ten* per cent., was under *five* per cent. per annum; it were needful only that money should continue of the same interest value as when the works were projected to maintain the stocks at a *premium* still; nor could they ever be intrinsically worth less than *prime cost*, or become a source of loss to the stockholders, until their net return per annum fell below the interest rate for money. We may indeed carry this point even further, and suppose that the railway return did so fall below the rate of interest, and that the stocks in consequence fell below par: there would still, under almost any circumstances, be a large *balance of gain to the country*, arising out of the profitable circulation, in the manner just explained, of the capital employed in the construction of the works; and which circulation it would seem almost impossible to interrupt, except by means of what has recently occurred, namely, an arbitrary *contraction* of the *physical medium*.

Now the supply of railway funds (which we put hypothetically) *really existed*, *un*aided by authority, in the great superabundance of *money* which pressed for investment in 1844 and 1845. The subsequent failure of that supply—the rise of interest to a point beyond the prospective per centage of return on the capital in progress of investment in railways—has actually annihilated the bulk of such capital by simply reducing the market value of the stocks, and by having reduced, in the same ratio, the floating and fixed capital of the country. The fact is indisputable that the funds which existed in 1844 and 1845 for the construction of new railway works and for all industrial and commercial purposes, unhappily (from the cause mentioned) *do not now*, although they previously *did exist*, in ample abundance.

But, except in this depreciation common to all property, no change has yet occurred in the *ultimate* prospects of the railways themselves. Like the first application of steam-

power to manufactures, its application to locomotive carriages at once opened a new and the widest field of expansion. A tulipomania and the railway mania cannot be compared together. The conviction that the railway system must *entirely* supersede the old medium of travelling, is at this moment, perhaps, as deeply lodged in the public mind as it was when the greatest excitement prevailed on the subject; nor can it be denied that every year's delay of its general introduction must involve the most needless and the heaviest of taxes on property *in transitu* and on *time* (which is often the more valuable property) levied upon the whole community. The railway projects themselves originated in adequate causes, and such as, whenever they exist, must produce equal results.* They sprang from irresistible facts—the *great utility* and the *greater profits* of the completed lines.

If the Manchester and Liverpool Railway Company were publicly known to resort to all sorts of expedients to divide (in evasion of the law limiting the profits to 10 per cent.) accumulated profits of 15 or 20 per cent. per annum; and money could be found at 3 and 4 per cent. to construct similar works promising an equal return; this was a motive, in conjunction with the novelty and importance of the works, which was, and always would be, irresistible. And no material change in the *original prospect* can be shown to have yet taken place, *except*, as before mentioned, *through an arbitrary depreciation of the stocks* (involving *an equal extinction of the capital invested*),—the consequence simply of *a great enhancement of the interest of money.*

Having so disposed of the question of a *deficiency of*

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* The temporary *abuse*, by the frauds of various projectors of railways which were never intended to be completed, and which had soon lost their chief influence, forms no valid objection to the essential importance of these national works: the abuse can never become an objection to the use of so great an auxiliary to commerce.

commercial capital as resulting *necessarily* from the railway investments, we have now to consider

THE RAILWAY EXPENDITURE, AS A CAUSE OF THE RECENT SCARCITY AND DEARNESS OF MONEY.

Were the current payments for the new railways a mere *transfer* or *conversion* of floating into fixed capital, reducing the employment of so much capital in one sphere by simply transferring it to another, no *new* demand for *money* could thereby arise; and *no number* of such transfers could add to the demand upon the *currency*. For the currency being merely the *vehicle* for transferring capital, the capacity of that vehicle can be strained only by an *addition* of bulk or weight; not by sending it in a new direction.

The only possible ground therefore on which the railway expenditure can be alleged as an *additional demand* on the currency, is *not* that it is a mere *transfer* of capital, but an *addition* to it: a new *creation* of capital, which, in the ratio of its increase, involves, as we have just seen, an increase of floating capital also,—of which it is the source.

The augmentation of demand upon the currency, by the *addition* to it of the current railway payments, we then admit; but its *ratio* and *effect* evidently can be measured only by showing, from some appropriate data, the *proportionate* amount of currency requisite for making *those*, as a *given portion* of the *aggregate*, payments of the country. The effect of adding to the aggregate payments any given sum, then becomes simply a question under *the rule of proportion*.

The *value of money* may be augmented either by *a reduced supply* of currency, or by *an increased demand* upon it. We have seen* how little effect it was possible for the railway demand to produce upon its value; and, under any circumstances, before attributing consequences

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* See Section VI.

to an increase of demand, it was obviously incumbent, in the first place, to show that *the previous supply of available currency had been kept up.* Had it been so, and still had the value of money augmented with the railway demand, it *might then* have been proper to consider how far that demand was for its beneficial employment; and whether, on that account, provision ought not, if possible, to have been made for a suitable *addition to the currency.* But if, on the other hand, although the sanction of Parliament had been given to the largest possible scale of railway works, the currency had not only *neither been augmented*, nor *maintained in the previous supply*, but *had been suddenly reduced to a most serious extent;** it is true that it might still be proper to say that the railway demand had added fractionally to the value of money; but this, it is clear, at the same time, *could not* have been *the cause* of its *scarcity* and *dearness.* The effect of the additional demand produced by the railway payments upon the currency, it seems impossible to estimate fairly or usefully, except from such data as those we have ventured to appeal to, namely, the *aggregate payments* and the *aggregate active currency*, to show the effect *of a given sum being added* to the one, or *another given sum subtracted* from the other. Without pleading for perfect exactness in our figures, it is needful only to say that, taking the aggregate payments at the *lowest possible* amount, the railway addition to them must have been of comparatively insignificant effect; but even had these required a temporary addition to the Bank note currency of *one to two millions*, it would be impossible to show that works of so much national importance ought to have been suspended *for the want simply of so much additional currency.*

The following extracts, *seriatim*, from the Money Articles of the *Economist* newspaper, it will be seen, harmonise with

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* See page 32.

the foregoing argument rather than with the *opinion* so emphatically reiterated by the editor of that journal.

To begin with the statement and prediction, which we find under date of the 28th Feb., 1846 :—

"The first and most obvious (cause of pressure on the money market) is the absolute conversion of floating capital into fixed capital by the railways now in progress. For this purpose alone nearly *four millions* of calls have been made since the end of December (two months). We are bound to repeat, and to warn our readers not to look upon the present pressure as a mere temporary difficulty." It is further stated, "The brokers in Lombard-street have given $3\frac{1}{2}$ per cent. at call, and in some cases more." The minimum rate of discount at the Bank of England was at the time $3\frac{1}{2}$ per cent., and *the entire railway deposits*, it will be remembered, *were then detained by the Government officer*.

With the above prediction and its rationale, it is only needful to compare the following extracts from the same journal, under the later dates named.

The first extract is of date the 5th of September, 1846, and runs thus :—

"The week has been marked by a considerable abundance of money, and with very little employment for it. The supply of bills is very small, and there is rather a tendency to pay off money borrowed on securities than to borrow more. *On the Stock Exchange money has been a drug at two per cent.*"

October 3rd, 1846, we read again :—

"The *immense amount of railway calls* which have been *payable this week* (upwards of *one million and a half*) *has not produced any effect upon the money market.*" The Bank rate of discount was now 3 per cent.

And finally, so late as the 26th of *December*, 1846, *ten months* after the date of the prediction—the amount of the railway calls constantly augmenting throughout the whole interval—we thus read again :—

"*Money continues plentiful* at unchanged rates of interest. First-class paper is readily convertible at the discount houses at 3 to $3\frac{1}{4}$ per cent." "The *share* market begins to show *considerable activity* again. For some days

large purchases were made, *both in the established and the projected lines. Prices have an upward tendency.*"

Hitherto, then, there had been no scarcity either of currency or of capital: no forced contraction nor hoarding of the active circulation. The scale of consumption, the demand for the produce of domestic and foreign industry,—which is the life of commerce,—with the fiscal revenue depending thereupon, were expanding in the most remarkable degree. From 1842 down to the early part of 1847, the continued growth of the revenue had afforded the most perfect demonstration of what, indeed, was otherwise self-evident, namely, that even after a *great and general reduction* of duties, *the revenue would still increase, provided* that a *basis* (which the railways chiefly, if not alone, may be said to have furnished) *were at the same time laid for a proportionately extended consumption* of those commodities on which the duties had so been reduced.

Shortly after this time, however, was commenced—with a more rapid export of bullion in connection with the domestic scarcity of food—that action on the supply of currency and the rate of interest, which will be long remembered as the *Money Panic of* 1847: to which, in another section, particular reference has already been made.

The fair conclusion, then, to be drawn from this argument would seem to be, that railways, so far from involving an *exhaustion* of national capital, are, *per se*, the most valuable and the most substantial *addition* to it which probably has ever been made: and equally so to *floating* as to *fixed* capital; that the circulation of capital in the construction of railways, even upon the largest feasible scale, employs only the most inconsiderable portion of the currency; and that, whilst every interest—industrial, commercial and fiscal—must have gained immensely by their vigorous prosecution; every such interest,—the farmer, the manufacturer, the merchant, the tradesman, the capi-

talist, and the *revenue*,—must now sympathise in all the calamitous consequences of that great contraction of general industry, and of domestic and foreign commerce, which naturally results from the abrupt suspension of nationally important undertakings upon so great a scale.

Section XVIII.

OF THE "FREE TRADE" MEASURES, AS A CAUSE OF THE RECENT NATIONAL EMBARRASSMENT.

No law of nature probably is more general or invariable than the political maxim, that *the expenditure of the community will be augmented in the same ratio as its means or income*. This result is, however, always most conspicuous when it is the consequence of increased means enjoyed by *the industrious and lower classes:* because these constitute the numerical majority, indeed the *great mass*, of the population. Of the social pyramid, so to speak, they are the base and by far the broadest part. When this class is in prosperity, every thing above it necessarily is so too; when in a state of privation through the failure of employment, the whole body politic becomes disordered and depressed.

A condition of *full employment*, or of *a failure of employment*, is immediately exhibited in the state of the Revenue. It is equally so in detail throughout every department of trade; which, by re-action, multiplies the original cause or the simple evil of reduced employment. If *one-third* in number of the labouring classes have been *thrown out of work entirely;* if another third portion have been only *partially* employed, and if only one-third have been *fully* employed during six months of the year; the privation becomes a *national* one in the widest sense, and is also *individually* felt to be so.* The return to *full* employ-

* P.S.—At a meeting, on the 27th March, of the delegates of the various trades of the metropolis, the report of the committee was read, the purport of which was "that there were about 200,000 *artisans and mechanics in the metropolis;* that *one-third* of them were employed, but about *one-half of the number had not remunerating wages;* that *another third were only occasionally* employed; and that *the remaining third were entirely dependent on parochial relief.*"—See *Economist of April 1st, page* 378. See also Sect. I., pp. 4 and 5.

The same report of the *comparative numbers* of the *employed* and *unemployed*, we believe, to have been equally applicable *to the whole kingdom for several months past;* indicating a condition of the population which furnishes, if such were wanted, an additional proof, in connection with the late Republican ferment, of how much serious political discontent may originate in unsatisfied hunger, and of the truth of the shrewd observation of *Napoleon*—"*Ce n'est que le ventre qui gouverne le monde.*"

ment again, during the following six months, would be equally conspicuous in its results upon the general prosperity. The effect is just the same when *a new addition* is made to the employed body of labourers through the opening of some new field of industry, and the addition to the aggregate income of the country through this expanded *scale*, or through the increased *rate*, of *wages*.

The labourer who, with his family, had before subsisted on a parish allowance of *three* or *four* shillings, but who now receives *fifteen* to *twenty* shillings a week, not only must consume more *bread* (contrary, we believe, to the *opinion* of some very respectable authorities), *but more also of beef and of all other edibles*.* His wife and children would wear more *clothes*, some additions would be gradually made to the *furniture*, and then, perchance, to the *size* of his cottage. When this transition in circumstances becomes universal, as the consequence simply of this *full* employment of the *mass* of the population, the shops and trades of the village and town are everywhere endued with new life, and the whole social scene, from one end of the kingdom to the other, is strikingly changed. All this, however, is *the result solely and necessarily of increased means*.

In another grade of society an individual, before in receipt of £150 a year, has now his income advanced to £200. He, too, having a wife and family, finds that this additional sum can be laid out usefully; and though by no means extravagant, the articles purchased in consequence

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* We extract the following from the able Analysis of the Revenue in the *Economist* of the 8th January:—

"The Customs, Excise, and Stamps, which items constitute the chief indications of the state of commerce and the condition of the people, show a decrease on the six months of no less than £2,022,559." That is, on the last six months of 1847 compared with the last six months of 1846.

And with regard to the present greatly diminished consumption of even such necessaries of life as *breadstuffs*, we adopt, as before intimated, the report of the Bakers of manufacturing or populous vicinities.

will all, of course, be better in quality than those required bythe labourer.

A gentleman, again, whose income should be augmented from £1000 to £1500 per annum, would, with his family, consume more of the *luxuries* of life: more silks, a larger mansion, a better wine cellar, and, possibly, a carriage would now mark the improved circumstances of his class.

The additional use and consumption of commodities which follows this increased individual revenue, although it falls *mainly* on *domestic* productions, necessarily includes also, in proportion to the general prosperity, a large additional quantity of *foreign* produce and merchandise, such as sugar, cotton, mahogany, timber, &c., from all countries trading with us. The population, too, of these *foreign* countries, like our own, is obliged to limit its expenditure *only by the scale of its means*. But as those limits, from any cause, should expand, so would its expenditure, and, therewith, the consumption of every commodity used by them, whether of their own or of foreign production. A large increased demand from ourselves would, of course, raise the price of foreign produce, augment its export from every shore, and thereby *add to the foreigner's means*. And so certainly as this should be the case, it must be followed by an augmented demand for those manufactures which such foreigners are accustomed to purchase from us. But this *direct* effect is not all. The same means of increased consumption, if limited to *only one* of our foreign customers, would increase the demand for the productions of *all other countries with which that particular country had commerce*; and these countries, trading with ourselves likewise, would, upon the same principle, find their means also increased, and enabling them to augment all *their* commercial demands from us. For example:—The population of Brazil, on finding its means of consumption augmented by a greatly improved demand for. and price of, sugar in England, would

not only purchase *more* of what it had formerly taken from *ourselves;* but also more wines and silks from *France,* and of various commodities *from all other countries;* the effect of which would necessarily be to *increase* in the *latter* countries the usual demand for British goods. Thus, by *necessary sympathy* and *natural fraternity,* even amongst foreign nations, the improved wealth resulting from the augmented prosperity of *one* country, becomes distributed, with as much certainty as the laws which govern the tides of the ocean, throughout the whole circle of nations. It is true that the period of time in which this circulation of capital would be completed, may vary, and sometimes may be protracted. Sooner or later, however, its effect, *depending on a law of our nature,* is *certain* and *inevitable.* This, too, is one of the simplest and most self-evident of the doctrines of Free Trade.

But, *what is the earlier and intermediate effect of this great national prosperity* in our own country, and which tends to such universal benefit? Let this domestic prosperity, too, be supposed to rest upon the soundest basis; that the full employment of the population, which is the foundation of the whole, is directed only to the most *useful, necessary,* and *productive* works, and is sustained purely by the *surplus* and otherwise *useless capital* of the country?

The early effect of so much and so well directed and well sustained industry is to *create a temporary foreign balance of exchange,* and by a proportionate drain of bullion, (though only to the extent of five to ten millions sterling,) to induce a contraction of the circulating medium of such prosperity; resulting in a money panic and a depreciation of property, which, with one rude blow, dissipates the great proportion of the capital which fostered and was essential to that industry, and from the loss of which that industry is now necessarily suspended.

It is thus that *the existing constitution of Currency,* by

its own action alone, regardless equally of the benefits resulting from this national industry on the one hand, as of the consequences to the population of its abrupt suspension on the other, stands opposed—*not to wild speculations* (as the event and avowal both show) but—*radically* and *at the very threshhold*—to *every plan of social improvement*, however well, ably, or patriotically contrived, which shall contemplate a state of things in which *the mass of the population shall be fully employed, or adequately clothed, fed, or housed!*

It must, therefore, be incompatible with the permanent prosperity of every interest, industrial, commercial, and social, and as well foreign as domestic: because that prosperity is limited only, as we have seen, by the scale of wages and income of the population.

To the more deeply reflecting amongst the advocates of the present system of currency we beg to be allowed to put the question,—Whether a drain of *five* to *ten* millions of bullion from the Bank of England *at any time, irrespective of the previous circumstances of the country altogether*—no matter what may be the quantity of surplus capital, or whether to make investments in foreign securities or to purchase foreign food, for which the population at home had the amplest means of payment,—no matter what the exigeneics of the country, or the temporary necessity to part with so much gold for the period of *three months only*,—we ask, whether the simple circumstance of the *drain itself* would not at once destroy the whole fabric of that commercial and industrial prosperity, conformably both with the *design* of the system as acknowledged by its supporters,* and with its *effect* as explained in this enquiry?† What abundance of *capital* merely, under a rapid drain of gold, could avert a money panic? What degree of *soundness in the basis* on which so much general industry had rested could

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* See Section VIII. † Sections I.—VII.

protect it from subversion? What remedy, except *either a change of our currency laws,* or that the population (even with ample wages in hand) should, out of pure respect to the *basis* of the currency, *voluntarily consume less* of sugar, tea, and coffee; and that the higher classes, with their rapidly growing income, should, from the same apprehension of disturbing the basis of the currency, also *consume less* of silks, wines, spices, and other luxuries? For, as we have just before shown, this *augmented consumption* of commodities is *the natural and inevitable result* simply of *the full employment of the population.*

Merely to *disparage* the system of currency established, is not the design of any observations we now make. Our object is, if possible, to suggest the *motive* for an *unbiassed investigation* of that system *by its principal advocates*, with a judgment rather under the dominion of *modern facts and experience* than under that of *great names, however distinguished,*—which, there is too much reason to fear, have the greater weight in this vital controversy: for, when allied to speculative science, it is a lamentable fact that *high authorities,* so called, have proved in other ages of the world's history a great and permanent hindrance to the advance of practical philosophy in not a few of its most important achievements.

And *more distant still* is it from our wish to exhibit the *Free Trade* doctrines and measures *as fallacious.* In this respect our design is rather to place those measures on the only foundation which, it appears to us, admits of their harmonious action with all other essential branches of the national economy, and this, of course, is equally the object of their propounders.

The Act of 1844 was introduced to secure the simple result, *that the available currency should be reduced with the reduction of the Bank's stock of bullion.* The Acts reducing and repealing foreign Duties, which preceded and

have followed the Bank Charter Act, were passed avowedly to remove legislative obstacles to the freest importation of foreign commodities. So far, then, as they go, the Free Trade measures must tend directly, *in the first place*, to induce or augment that reduction of the stock of bullion, and thus, under the existing laws, to reduce temporarily the available quantity of currency.

Nor is it a sufficient answer to this to say that a few years' operation of the free trade system *will accumulate gradually larger stocks of foreign productions;* and that from this source any sudden addition to our demand for them will be supplied without inconvenience: For such *sudden demand* will as suddenly *add to the price* of those stocks, and the advanced price will as suddenly *bring a proportionate foreign addition* to them;* or else the *price*, which is governed (ceteris paribus) by the amount of such stocks, *must continue so much higher* than previously, as perhaps to add more to the aggregate value of such renewed imports, and consequently to the foreign balance against the country, than would result from an import equal to the whole difference in the relative stocks. This principle, it is presumed, will not be disputed. Of any commodity the *price* will be relatively as the *stock* and the *demand*. The price, with the supposed accumulation of stock, would therefore be *much lower* than with moderate or with the usual stocks; but it would advance the more rapidly *on that account* when the demand augmented as, for example, in the case of the price of grain in the autumn of 1846. It must be therefore evident that even supposing the *accumulation* of stocks of grain or other produce, under *a low range of prices*, to be realised, (which, however, is problematical), still that cannot prevent *an advance* of price under, and *proportionate to, a sudden and extraordinary*

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* See page 63.

demand: which, as now, would equally influence the foreign exchanges.

Of the present dependent condition of the domestic currencies of most countries upon a particular state of the foreign exchanges in relation to each, it thus becomes a necessary consequence that the internal prosperity of any country, as resulting from the greatly-augmented employment of its population, should be arbitrarily *delayed until a similar degree of prosperity can be realised in other countries trading with it;* and yet again, this condition of domestic prosperity depends naturally upon so many accidental circumstances that the universality of the benefit amongst all such countries *at the same time*, becomes the next thing to an impossibility; and, therefore, it will happen perpetually that the country which shall be so fortunate, (or *unfortunate*), as to be the *first* to attain to that high state of *sound* prosperity, must be the first also to draw upon itself, and, by sympathy, upon all countries trading with it, that train of commercial evils which originates in—(what are synonymous phrases practically)—a derangement of the exchanges, a drain of bullion, a money panic, or a commercial crisis.

The conclusion would, therefore, seem to be inevitable that, however unfortunate an adjunct of the existing system of currency that circumstance may be, it is still the fact *that such a principle and our national prosperity* can exist together, *only provided that the domestic prosperity of foreign nations shall either take precedence of, or be exactly cotemporary with, our own!*

Section XIX.

CONCLUSIONS—FROM THE FOREGOING INVESTIGATION.

1.—WITH REGARD TO THE CAUSES OF THE EXISTING COMMERCIAL DISTRESS.

Tracing minutely, then, and measuring to their utmost reach, in fulfilment of the task we at first undertook, the several *coincident circumstances*,* which have been alleged as a special, or, as the aggregate, source of the present commercial distress, a cause *adequate to that effect* and *paramount to all others* has thus been discovered; a cause so energetic in its agency, and so general in its application, that even *were the influence of all others which have been alleged suspended*, would *of itself be sufficient to account for the whole* of such commercial distress; and so absolute, withal, that it would appear impossible for the same agency *at any time*, or, *under any circumstances*, to be put in operation in the same degree and with the same abruptness, without producing an equal money panic, and a corresponding train of commercial embarrassment and national suffering.

According to the evidence we have adduced, to shew the *extent*,† the *meaning*,‡ the *agency*,§ and the *effect*‖ of the present *depreciation of property*, we find *the great destruction of capital* involved in that depreciation to be the most general and the most permanent cause of the prevalent commercial distress; and that such exhausting loss of capital is *necessarily, from the nature of the two things, the consequence of that process of contracting the circulating me-*

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* See Sections XII.—XVIII.

See Section † II, ‡ III, § VI.—VIII, ‖ I., IV., and V.

dium, from which results, by an equal necessity, *the "capricious, usurious, and blighting" advance of the interest of money.**

It may be objected that the rate of interest *has lately fallen* without *a corresponding rise* in the value of railway and general property: to which it is a sufficient reply, that this state of things is *now* the natural consequence of the want of *capital*—(the *effect*, not the *cause*, of the recent money crisis): a want which would be inconsistent with the following co-existing circumstances, namely,—*unshaken* commercial confidence—a scale of *prices* ruling at the *cost, average*, or *natural* value of property—a *full circulation*, a full Bank reserve, and a *long established* low rate of interest;—but a *want* which arises necessarily from the universal depreciation, evidenced in the weekly reports of the markets for all property; a reduction of the circulation by at least *one-sixth* of the whole† previous amount, and *the almost total wreck of confidence* both in the standing of commercial houses and in the future course of the money market.

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* Not that *we would recal the abrogation of the Usury Laws*: we concur in that measure; but, at the same time, we are compelled, by the truths elicited in this enquiry, to dissent from, as *utterly untenable*, the *grounds* on which the repeal of those laws has been urged and defended,—namely, that *a high rate* of interest is at all *the means of augmenting the national capital*. From the nature of the case, as we have illustrated it, it must be evident, we presume, that the utmost advantage ever contemplated by the advance of interest to a usurious rate, (namely, the dubious return to the country of *five* or *ten* millions of *foreign* capital)—is secured (if secured, indeed, at all) *only at the cost of as many hundred millions* of the previously existing domestic capital—which is essentially and completely destroyed by the agency so employed to augment it. The advance of the rate of interest to that exorbitant pitch, which, *in the charge simply for the use* of money, devours not only the expected *increase*, but the very *principal* and *body* of the national capital, is *in itself*, according to the facts and views of the case we have adduced, one of the heaviest of those *self inflicted* scourges which Providence seems to employ to punish the cupidity of a nation. The argument of Sections I. and V. of this enquiry, appears to us to indicate some high *political* reasons for the penal statutes against *Usury* (in which such exhausting rates of interest *at the least* were pointed at) so emphatically recognised in the civil jurisprudence of the wisest, the most ancient, and the most sacred of law-givers of the civil code.

† See pp. 31 and 32.

2.—WITH REGARD TO THE *result* OF THE LEGISLATIVE EXPERIMENTS UPON GIVEN PRINCIPLES IN CURRENCY.

The experience of the year 1847 would seem, then, to have brought our financial policy and its advocates to one or other of the following alternatives:—that, upon the *principle of the existing laws*, either you must have a currency with its convertibility into coin, *at the discretion of the Bank, as prior to the Act of* 1844;—or you must have a currency with its convertibility *nominally secured, but at the risk of national bankruptcy, as in* 1847;—or you must have a currency with its convertibility *neither at the discretion of the Bank nor arbitrarily secured by law:* but, on an impulse of the Chancellor of the Exchequer, *liable to abandonment at that precise point* when alone the action of the law becomes *in the least degree* efficient towards its object. All these expedients, however, evidently involve the same arbitrary contraction of the circulating medium, with the same capricious and desolating advance of the rate of interest, and consequently leave the grand evil unmitigated. In this respect, too, they evidently *in no way differ* in their operation *from that of a purely metallic currency;* except that the latter would necessarily, on the same export of bullion, *contract of itself*, without the intervention of any agency, legal or official.

Let us not be understood as impugning the doctrine of *convertibility*. Our wish is to place that principle on its only feasible basis. And we seem now fairly entitled to *demand*—from those who, *without regard to the consequences* of the most distressing currency enactments, have shaken and endangered so much that is valuable in our social polity, and yet *without advancing one step* towards *securing the sole object* of those distressing measures—*convertibility*,—Upon what *principle* can their further measures proceed? Can they advance in the same direction? Can they retreat to the original position? To *advance*, they must only

render *more stringent* the oppressive law of 1844. To *retreat*, they must render that law *less* stringent,—that is to say, *nugatory*. In the one case (where that law can be said to have any operation at all, namely, under a drain of bullion), the progress becomes only the more rapid towards a state of *national bankruptcy*. In the other case, to relax the law *just when* (namely, under a drain of bullion) it ought to *act* (for it is perfectly inoperative in every way at all other times),—is simply to fall back—between *Scylla* and *Charybdis*,—upon the position from which the whole series of currency measures started, namely, that of *the unprotected exposure of the currency to inconvertibility*.

We repeat, then, and respectfully urge the question,—If the *series* of currency experiments upon the presently regnant doctrines have *failed entirely to accomplish their definite and sole object*, and *have succeeded only in producing that extent of commercial distress*, which we have seen to be the natural and necessary result of the measures resorted to to insure that object,—*What*, we say, *can you next attempt?*

In the modification of the law of 1844, as proposed by one most respectable and numerous body,—by means of "a relaxing power lodged in the Executive Government;" that is, a discretionary power, during a drain of bullion, to authorise the Bank, *independently of the amount of its stock of gold and silver* (or of its supposed *true basis*) to maintain a given amount of its issues irrespective of the restrictions imposed by the Act in question,—we humbly submit, is to *destroy the principle of the Act altogether;* and thus to restore matters, so far as any efficient protective legislation is concerned, to their former position. A *modification* of the Bank Charter Act, therefore, evidently can furnish no *remedy* for the evil to which it is so proposed to be applied. A *modification* is tantamount to the *destruction* of that Act, and involves, as prior to its enactment, *the most complete exposure* to "inconvertibility." A

proposal for its *more* rigid construction dare not be even entertained. And to continue the law in its present form, neither *the public exigency* nor *the public voice will permit.* It is thus impossible, with the previous class of currency measures, either *to go forward,* or *backward,* or *to stand still.* A more complete case of *self-checkmate*—(all these measures having been triumphantly carried *seriatim* by their propounders),—in our humble judgment, never was presented: for, in the midst of the dilemma, *the state of the country demands that something be done.*

All that class of modern enactments, it may be here observed, has proceeded upon an assumed *necessity* (and accordingly provides *only*) *for enforcing a conformity between the required quantity of the circulating medium,* and *the accidental and ever varying quantity of coin in the Bank;* and this totally irrespective of the coincident exigencies of commerce. The rule itself appears so evidently the dictate (if of philosophy at all) of philosophy *in the abstract,* that the proposal for its modification or repeal, founded on the mysterious and intolerable sufferings of the community, is perhaps its severest condemnation.

It is a rule, however, which rests upon the high authority of *antiquity* and *universality* of use—once almost the sole touchstone of truth—though certainly not free from suspicion, were it only that it is a relic of those mædial and earlier ages, in which some of the most useful discoveries in practical science and natural philosophy have been treated as criminal, if not infernal inventions. Abstract science may be appropriate amusement for the library; but when, on such important subjects as the currency of the greatest of commercial nations, it becomes enforced by law, it can scarcely fail to lead, where experience is disregarded, to consequences the most fatal. *Abstract* science would still have held *the ocean to be impracticable to steam navigation.* One new experiment, however, *one resolute attempt to cross by steam,*

at once *set aside* as ridiculous *the most learned and scientific demonstration of the impossibility of the thing.*

In the infancy of society, in its condition of imperfect civilization or of semi-barbarism, but still a condition advanced beyond that of rude savagism; and when the primitive system of commercial interchange by simple barter had been superseded by the use of a currency; gold and silver, from their intrinsic properties, seemed both naturally and providentially to supply the circulating medium: and probably the *only* medium admissible or feasible in a state of political science which did not comprehend, and of political despotism which did not consist with, the use of any circulating medium but one of *intrinsic* value exclusively;—a condition of society in perfect contrast with *a state of established national and commercial credit,* such as that which distinguishes this country in the present day; and, wherever found in the same degree, can exist only as a mark of the highest attainable point of political civilization. Just as, on the other hand, the exclusive use of a metallic currency (apparently the grand desideratum of the existing system) is found to be, wherever it obtains in its most pure form, the badge of *imperfect civilization* or of *downright barbarism.* That a country like *Turkey, Barbary,* or *Mexico* should be unable to employ any but an exclusively metallic medium, accords with the nature of the case. But that *Great Britain* should be so, whose *credit alone gives the reality of the highest class of property* (equally for foreign and domestic capitalists) *to upwards of* 800 *millions of an unsecured public debt,* cannot be maintained on the ground of *analogy.* The rule, therefore, however venerable for its antiquity, may be utterly inapplicable to modern circumstances and to the more lately developed laws of political economy.

The original danger, then, of "inconvertibility" which dictated the Act of 1844; the danger of general bankruptcy,

and its equally fearful consequences, which in 1847 compelled its arbitrary abrogation, seem now to have *forced legislation to discover some intermediate path,*—some feasible plan, as distinguished from all that have yet been tried, for *counteracting both the too powerful stimulant of the temporary influx of bullion* on the one hand, and *the too depressing effect,* on the other, *of its more temporary migration :* a plan which may at once secure *all that is practicable and of utility in the principle of convertibility* in a paper currency; and *which, at the same time, shall not endanger* (what cannot be, and is not held to be,* of minor consequence) *the steady convertibility of property into money.*

In the too general want of familiarity with the subject of Currency, and in the long absence of any *common basis of union and co-operation* amongst its reformers, it were probably no difficult matter for the influential advocates of the present system yet to prolong its existence for some brief period. And all perhaps that the public, in the present stage of the controversy have reason to expect, and all that is here respectfully suggested is, that those eminent persons may condescend to reconsider in the light and experience of the year 1847, *every point* of that system *derived from abstract science, or from ancient custom merely;* not contenting themselves with a merely superficial *enumeration* of any general and *possible* causes only of the evils now forced upon the public attention; but that, with an interest proportionate to the grave importance of the inquiry, every such alleged cause, before it be, (as aforetime,) adopted as the true one, be patiently and logically measured by *all* the facts of the case, as to its precise and indisputable bearing on the great question at issue.

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* See page 45.

3.—WITH REGARD TO THE *GREAT ESSENTIAL* IN ANY PROPOSED REMEDY.

If, then, the argument be sound which has conducted us to the conclusion *that the grand evil to be remedied* by future legislation upon the currency is *the "capricious, usurious, and blighting interest of money;"* it will follow, as the consequence, that *the great essential feature—the only safe test of efficiency*—in any proposed plan of remedy, must be its containing or not *the sure provision for some permanently equable and moderate rate of interest;* and, therefore, as the rate of interest, like the price of any other commodity, will always depend *upon the supply of currency relatively to the demand for it,* that the required provision for a permanently equable and moderate rate of interest *can be rendered sure only* by some constitution of the currency which will admit of the *supply* of currency being regulated with reference to the *demand for its employment;* which depends *(cæteris paribus)* on the *rate* of interest. These conclusions will, in our further progress, be more amply illustrated and confirmed. Assuming them, in the meantime, it will be necessary *to apply this remedial test*—(which, with the utmost possible deference to the views of their several propounders, we have now to attempt)—*to the principle* of the most prominent of the plans of remedy which have been already publicly suggested.

And here, first of all, it will be conceded on all sides that, taking the *average circulation* in connexion *with the average available reserve* of currency, even during the existence of the Bank Charter Act, *the supply of currency* (at a moderate rate of interest too) *has been quite equal to, and sufficient for* the *average demand* for its use. Therefore *the want* for which provision is sought to be made is *not that of any increased quantity* of currency,—but simply of *equability,* or of security against *arbitrary fluctuations, in the same unaugmented supply.*

The various projects of *Currency Reform* may be classified by two leading characteristics: their *partial* or their *radical* application to the evil admitted by both; the first, proposing some *modification* only of the present basis; the second class advocating *another basis* of the currency as the only means of protection against its liability to arbitrary foreign abstraction.

At the head of the *partial* reformists must be placed the parties to *the Memorial of the London Bankers for a modification of the Act of* 1844; urging, with the addition of *silver* to the gold basis of the Bank's issues, the necessity for "a relaxing power to be lodged in the Executive Government," with reference to the Act mentioned. To the latter point we have already alluded; and with regard to the former, the present constitution of the United States' currency, may be adduced as sufficient evidence that the *double basis* is not impracticable. The inconvenience of the single basis, though considerable during a money panic,—as silver is always convertible into gold on the Continent, whence gold is imported in return—is still not to be compared in importance with the second object of the London memorial: an object which it seems impossible to reconcile with the security of the principle of convertibility into coin, which is also by the same parties as strenuously contended for. For the effect of enlarging the issues upon securities to *seventeen* millions instead of *fourteen* millions, it must be evident, would be simply to augment in that degree the liability to "inconvertibility" (as before explained); by restoring matters in the same degree to their position in 1839, 1836, and 1826; the history of which periods shows that the proposed relaxation could at most *delay*, but could not avert *the danger of general insolvency* which *then* impended; whilst, under an equally protracted drain of bullion, *the danger of the Bank itself suspending cash payments would thereby be augmented.*

But, *principally*, with reference to this proposal it must be observed, that it does not apparently *even touch* the great evil to be remedied; which, *according to the conclusion* just stated, requires some sure provision for an *equable supply* of currency.

Nor does it appear in what way *the establishment of a National Bank of Issue*—or *a permanent re-issue of* £1 *notes* to a larger or smaller amount—or how *a system of Free Trade in Banking*—either *severally* or *together*, could, *of themselves*, bring us any nearer to an efficient remedy, as just explained with reference to its most essential feature: because the principle of convertibility, upon its present footing, would evidently, with *either* or with *all* of those expedients, still involve, *on the periodical export of bullion, a forcible contraction* and the present danger of *general bankruptcy*,—or *non-contraction*, with the old danger of *that and inconvertibility together*;—either of which alternatives must, as promptly then as now, be anticipated by a similar panic in the money market, attended by an equal rise of the rate of interest.

Neither, again, is it possible that *the mere repeal of the Bank Charter Act of* 1844 could have any material effect towards the desired amelioration; for the result of that step would simply be the restoration of that previous order of things in which had occurred the frightful money panics of 1826, 1836, and 1839: a state of matters which the Act in question had been designed, but has now so signally failed, to remedy.

Nor is it at all more probable that a remedy would be found in *the enlargement of the specie basis of the Bank* under the present laws: for suppose *the bullion* in the Bank of England *to be augmented to* 20 *millions*, and to continue thereat, we will suppose, for *five years* uninterruptedly; the chief effect would be that the value of money, *being governed by its quantity, must fall* in the ratio in which its quantity,

through the additional stock of bullion, had increased; and *interest must descend to a lower point than has ever yet been witnessed in this country.* The consequence would naturally be, that Consols and other securities and property would advance to a more dangerous pitch; and *every form of speculation* which takes its rise in the cheapness of money, would be stimulated to *a degree yet unparalleled.*

This would be the *first* effect of augmenting the specie basis of the Bank. And what must be its result, *secondly, on the repetition of a drain of bullion* similar to that of last year? Clearly, *the greater mischief* in the ratio in which the prices of stocks and other property had been advanced, through the low rate of interest. When a drain of bullion has been commenced under a stimulus, and has proceeded with a rapidity, equal to what was exemplified during last year's and former drains, it becomes an impossibility *to fix a point or limit* at which the efflux shall cease. It is this uncertainty, together with the violent measures resorted to to stop the drain which necessarily creates the money panic, arrests the current of trade, and depreciates the property of the country. As *this depreciation must therefore be only the greater for the previous abundance and cheapness of money,* the form of remedy proposed through an enlargement of the specie basis of the bank must prove simply *an aggravation of the evil as existing now.*

Nor does there appear to be any *feasible contrivance* by which, under the present laws of currency, *the operation of the law of supply upon value,* can be artificially evaded, so as to increase the stock of bullion in the way of a simple *corps de reserve,* for employment *only during* the progress of the drain: for,—to say nothing of *the immense loss of interest* through retaining unemployed so large a sum as would be required, to be of service in the way proposed; of *the mode of purchasing or procuring it;* or *by whom the whole expense was to be borne;*—it would seem impossible

but that the *mere fact*,—notorious as it would be—of so large an additional stock of bullion *being in the country*, must have a proportionate influence on the value of the active portion of the aggregate currency.

It would seem also, from the *nature* of what must be the great essential in *any* efficient remedy, that neither would the case be met by *fixing the quantity of the paper circulation at its average amount during any past term of years:* for, not to mention the difficulty of making a satisfactory distribution of what was thus limited by law, *the very fact of its being absolutely limited at all* to anything so near the actual sum required for the daily circulation, must, it appears to us, from the experience of the months of April and October last, only involve the money market in a state of *constant* panic, greater or less in degree. A careful examination of the argument of Section IV will, we think, show how certainly *the demand* (in whatever exigency it might originate) *for half a million only, or even a much smaller sum, beyond* the limit of the supply, must frequently produce consequences of the most serious nature.

Nor, for the same reason, would a *paper circulation limited by the amount of Taxation* appear to approach any nearer to what is essential in the remedy. The amount of *taxation* can have no possible relation to the requisite amount of *currency*. The former being regulated simply by the accidental scale of the public expenditure; and the requirements of the latter by the amount of capital in course of daily transfer in the country, at different periods of the year, and under the varying circumstances of trade. As in the case last referred to, the inapplicability of the *principle* of limitation is apparent in the simple circumstance that neither plan embraces any provision for adjusting *the daily circulation*, by some sound and feasible process, to *the daily demand for it: that demand being, with the supply*, the regulator of the rate of interest.

It will be perceived, then, that the main ground on which we have ventured to take exception to the several projects of Currency Reform which have just passed under review, is the defect, of *their furnishing no definite security for an equable rate of interest.* On the other hand, we are equally ready to admit that *any one of them* which should adequately provide for that essential element in the remedy, and, at the same time, should be found competent *to work in harmony with the natural action of the Foreign Exchanges,* would, from the considerations already urged, contain all that is needful *absolutely.* But nothing, we humbly conceive, can prove more completely *illusory* than an alteration of the present laws, however imposing in other respects it may be, which shall omit *the fullest degree of security for a Fixed Standard of Value.*

For, lying as the commercial property and capital of the country do constantly, *at the mercy* of that which, although the most capriciously fluctuating of all things commercial, is still *the absolute arbiter of their value;** the question as to the necessity for some mode of rendering the rate of interest *equable or fixed,* must involve another question, which, *in theory* at least, is perhaps now universally resolved in the affirmative, namely,—*Whether, or not, Commerce ought to have free and fair play;* ought to be left entirely to itself to select its most advantageous field, to adjust its limits, and to regulate the value of the commodities in which its capital is invested,—*under the natural law of supply and demand only?*—Or, whether an *artificial law* is also to be maintained, whose action—*entirely subversive of the former*—none can foresee, and none (it would seem) is competent to direct; and which denies to those who conduct the national commerce *the only natural, reasonable and certain basis* for their enterprizes?

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* See Section V.

We hope to be acquitted of all pretence to proposing anything so indeterminate and chimerical as a *catholicon for all social evils*. Our design is at least definite and intelligible. It is *to suggest a legislative remedy*,—and to such an extent only as lies within the power and the province of the Legislature to apply it—*for the specific evils* detailed in the first sections of this inquiry;* a due consideration of which, we cannot but feel persuaded, must force upon other minds at least the *principal* conclusions to which we have so far conducted our inquiry.

A more difficult task is still before us;—more difficult, we admit, than either to trace the true character of the disease, or to object to the several forms of remedy proposed!

Where so many and so distinguished personages have been mistaken, and upon a *questio vexata* perhaps of the most difficult character, we are not insensible to our liability to error. The resources upon which we rely are those, however, of fact and argument; our aim is to establish *one great principle solely*. The attempt is made by an appeal to the understanding, and its verdict we must abide.

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* See particularly Sections I.—IV.

THE

NATIONAL DISTRESS:

PRINCIPLES AND PLAN OF THE REMEDY PROPOSED.

Section XX.

OF WHAT CONSTITUTES NATIONAL WEALTH.

A nation possessing *the greatest extent of territory* proportionately to its population, like *Russia;* another possessing *the largest population* proportionately to its territory, like *China;* and another possessing *the greatest proportional amount of gold or silver,* like *India* or *Peru;* do neither of them enjoy, on the ground simply of this peculiarity in their condition, *the greatest amount of national wealth.* Nor is a country enjoying *the triple advantages* of the largest territory, the most dense population, and the greatest amount of financial riches, possessed of national wealth in the highest degree. *Ireland* is distinguished by a teaming population, an immense superabundance of rich land, and is a considerable section of the wealthiest empire that ever existed. Yet Ireland is proverbially the poorest of countries. Of the same condition *Hindostan* is another striking example. National wealth does not consist in *any* or *all* the advantages enumerated; but, as already intimated, exists only *in proportion to the productive industry* in which *the mass of the population* of a country *is engaged,* and to its *individual and collective revenue,* as the wages or *returns* of such industry.

The earliest discoveries in the science of Political Economy—or of that philosophy which professes to teach us by what rules *the highest degree* of prosperity and happiness may be secured *to the greatest number* in the body politic—were made by the French school. Those discoveries amounted to little more than the truism, that the *Land is the original of all wealth;* or practically (as it may be said), that the whole of the substantial wealth of human beings is to be derived—not from the *moon*, nor from *Georgium Sidus*—but entirely from *their own planet*. The philosophical world is indebted to the sagacity of *Adam Smith* for the *second* fundamental doctrine, that *Labour* is the true source of national wealth: although even this discovery would seem to amount to little more than a paraphrase of the philosophical and preceptive maxim of Solomon, that—"*In all labour there is profit.*" The wisdom of France, it seems, had limited this subject merely to the most palpable of facts, namely, that there exist naturally in the *field*, the *mine*, and the *forest*, the primitive elements of all wealth. Dr. Smith followed up this *revelation* by one certainly more to the point. "True," observes the great Doctor of Political Economy, in effect,—"All wealth *does* lie in the field, the forest, and the mine, and there will it *for ever* lie, *until your industry draw it out.*" The "*mountains in the moon*," in fact, are just as productive of wealth as land in Middlesex *which lies constantly waste*. The schoolmen of France may thus not unfitly be compared to the Aristotelian *dogmatist*, who argued that the exquisite form produced by the sculptor's chisel *had ever, even before the artist's birth, resided in the block of marble;* whilst the disciples of Adam Smith are as correctly represented by the *artist* himself, who claimed at least the merit of having extracted his admired production from so rude a material.

Wherein indeed consists the greater wealth now enjoyed by this country compared with its condition on the landing

of Julius Cæsar? The natural sources of its wealth were even more abundant at that remote period; but its actual *amount* was comparatively a *bagatelle*. The revenues and accumulations now derived annually from the produce of the soil, the mine, or the quarry; from manufactures, commerce, shipping, and building; from the construction of highways, canals, and railroads; *all—the creation of labour* out of the native elements referred to, constitute the imposing evidences of the immensity of our present national wealth; and its further increase or diminution must be in the exact ratio of the increase or contraction of that general industry of which it is the product.

Thus we find *Land* to be *the source*, and *Labour* the *agency* of *national wealth*. At this stage, however, the science of political economy seems to have stood still. The utter uselessness of the *first* without the *second* discovery, had become palpable enough only *after* the latter discovery had been made; and there seems but too much reason to apprehend that until a *third practical law* of the subject be established, the *equal uselessness* of the *second principle* may be also overlooked. Yet it is daily matter of painful observation *to all*, that *the greatest superabundance of the first element*—land—and *the still greater redundancy of the second element*—labour, become *in the same country*,—for want of some further progress of the science, namely, the discovery of *the principle which sets and keeps in motion* the national industry—the fertile source, not of wealth, but of *the lowest form of poverty and wretchedness*.

How far our conjectures may successfully point to *the third element*, namely, *what that is which acts as the mainspring* of that general industry which creates the national wealth, we must leave the world to determine from the nature and weight of the evidence to be adduced, in connection with the observations contained in the preceding sections, to establish the position next to be advanced.

Section XXI.

A PERMANENTLY MODERATE RATE OF INTEREST, CONSIDERED AS THE *MAINSPRING* OF NATIONAL INDUSTRY AND WEALTH.

1.—AS AUGMENTING THE PROFITS OR PREMIUM UPON INDUSTRY.

The effect of a permanently moderate rate of interest would be, that *in proportion as the low rate became established, the present departments of industry would be enlarged,* and *new spheres* of useful labour *would open.* At 5 per cent. interest, for example, a given amount of industry will meet a profitable return; at 4 per cent. the *amount* will increase and the *spheres* become more numerous; at 3 per cent. the augmentation proceeds in a greater ratio; and at 2 per cent. the objects and applicability of profitable industry still further multiply.

Let it be distinctly understood that *the whole of the following series of observations applies,* not to a temporary and fluctuating rate, but *only to a moderate rate of interest, which is permanently and invariably so.*

Let us take, as an example, the industry dependent upon the profits or income derived from *House property,*—that of the brickmaker, the bricklayer, joiner, smith, glazier, painter, &c. Dwelling-houses are frequently built on the prospect of returning the proprietor *one or two per cent. more than common interest:* the owner, perhaps, contributing *one-third* of his own capital and borrowing *two-thirds* on mortgage. Whole streets of houses are built on this footing. Take, then, a range of 40 such houses paying, we will suppose, a rent of £50 each, or in the aggregate £2000; which would be at the rate of 6 per cent. per annum on an outlay of £33,000; £22,000 of which, we assume, is borrowed on mortgage at 5 per cent., and subject to the annual interest of £1100; thus leaving the proprietor £900

profit upon, or income from, his own capital: which, on £11,000, is at the rate of 8½ per cent. In the case supposed, then, such would be the *house-owner's premium*, or *inducement to build*. But, were he able to borrow money, for example, at *two** instead of *five* per cent., his income would be increased from £900 to £1500, or to upwards of *fifteen per cent. per annum* upon his £11,000 so invested.

The natural result here would be, that *so great a scale of profits must tempt many more to build houses*. The increased number of houses, again, must tend to a lower scale of rents; until, perhaps, indeed, the house-owner could obtain no more than his former 8½ per cent. But the *public* would be accommodated with the same houses at the rent of, *perhaps* £30, instead of £50 per annum. The consequence would be, that *the whole community*, from the cottager to the peer, *would occupy larger or better houses;* which, by augmenting again the demand for house property, would enable landlords to build and let more houses, capitalists to employ a larger amount of capital, and promote, proportionately to the expansion of this field, the augmentation of the whole domestic and foreign commerce and industry dependant in so many ways upon *house-building*. For it will be evident that the reduced cost of erections generally must also promote the use of buildings of a larger size for all present purposes, and multiply their number for purposes to which the present high rent and cost alone prohibit their being applied.

Take another instance. If a *Railway Company* were enabled to borrow money at *two* per cent. instead of *five* per cent., they could afford to carry passengers at a great reduction from the present fares. The consequence of this augmentation of the profit, through reducing the cost, of production

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* This low rate of *two* per cent. is selected in order the more strikingly to illustrate the principle propounded.

would be, that *competing* railways would multiply until *the fares were lowered;* the public would travel at nearly half the present charge; travelling would increase in the same proportion; the proprietors of railways would thereby be enabled to keep up their present scale of profits, though at the reduced rates; bankers and capitalists to keep out more money; and the general industry and commerce, dependant on the construction of railways, would augment proportionately to this increased demand for them.

Take the instance again of a *Farmer,* whose capital was a given sum, but who should now be enabled, at reduced interest, to borrow money upon his fixed property, in order to improve his farm and augment its produce. If, by reducing the rate of interest from *five* to *two* per cent., his net profits were to be nearly doubled;* these would induce *competition in farming,* until the increased supply of produce should reduce the price to the public; when the consumption would proportionately extend, so as to restore again the farmer's profits; expanding the whole trade and manufactures of the country by an increased consumption—the result of the larger amount of labour now employed.

Take the further instance of a *Cotton-spinner,* who borrows money upon his factory and machinery at *five* per cent. If, by reducing this charge to *two* per cent., his profits were augmented nearly 100 per cent., competition, increased production, lower prices, augmented consumption, renewed profits in trade, and proportionately expanded industry and commerce would ensue, as in the previous cases.

2.—AS THE STIMULUS TO AN EXTENDED AND IMPROVED CULTIVATION OF THE LAND.

The importance of this result, in a national point of view, is seen in the fact, that although perhaps *one-third* of

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* See Section I.

the land in the United Kingdom is under no cultivation at all, and that portion under cultivation is capable of improvement to a degree which would render it doubly productive; the country is now obliged, from sheer insufficiency of the domestic supply of food, to import from abroad, to the value of several millions sterling annually, what could be more cheaply, and of better quality, produced at home; imported, too, to sustain in idleness an immense pauper population on that very soil, which requires only the labour of the same population to be applied to it, to render it a source of sustenance and wealth.

Sir Robert Peel's project of the Drainage Act evinced the mind of an able statesman, and contains a principle which may be most beneficially *extended* to agriculture, and applied to other branches of national industry.*

The influence of *cheap money* is seen clearly in the rapidity with which the *Two Million loan under the Drainage Act* has been taken up by landlords of all classes. Had landlords facilities of borrowing money upon the same principle, but, as we have before supposed for illustration, at only *two* per cent. interest, with labour in abundance at the door, how much fewer acres would remain uncultivated! Cheap money is obviously the prime mover in all these improvements: and, in proportion to its permanent cheapness and constancy of supply, you draw every

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* The quantity of land in cultivation and otherwise, in the United Kingdom, as given in evidence before the Select Committee on Emigration in 1827, was stated to be as follows:—

QUANTITY OF LAND IN THE UNITED KINGDOM.

	Acres Cultivated.	*Acres Uncultivated.*	*Acres Unprofitable.*	*Total.*
England	25,632,000	3,454,000	3,256,400	32,342,400
Wales	3,117,000	530,000	1,105,000	4,752,000
Scotland	5,265,000	5,950,000	8,523,930	19,738,930
Ireland	12,125,280	4,900,000	2,416,664	19,441,944
British Isles	383,690	166,000	569,469	1,119,159
Total	46,522,970	15,000,000	15,871,463	77,394,453

thing from the land that the land will produce, and have a happy population thriving upon its surface. Ought not the most important of all economical enquiries then to be, it seems,—What is *the source* of that power in a *currency* which can so presume to restrain the beneficence of the Creator; to counteract that first natural and divine law, which assigned the earth to man as the source of his subsistence, and enjoins labour as the only means to that end? To urge that *the population* is too great *whilst so much land lies waste,* involves a palpable contradiction in terms, not to say, *of nature itself.*

Why then, it may be asked, so cruelly taunt the poor man who seeks for *employment,* by telling him, in effect—"There you see is land lying waste all around you, its culture would yield abundance of food, your labour upon it is all that is necessary to extract that food; *but you shall not labour upon it; you shall live by beggary, or by theft, or starve to death;* and, the nation *must pay the additional cost of importing food raised, by foreign labour, from distant lands!*"

3.—AS A MEANS OF IMPROVING THE PROPERTY AND CONDITION OF THE GREAT LANDED PROPRIETARY.

This result would necessarily arise by means of *the greater extension of building* and *the more general diffusion of population* over the more thinly peopled districts; by the expansion of *mining* operations also; *but chiefly by the increased demand for land* for cultivation. It must rapidly convert the barren wastes of Ireland and of this country into sources of great revenue to their proprietors, and of proportionate benefit to the whole population.

The *price of land* would by such means, in the first place, *rise legitimately.* Increased demand, equally with diminished supply, is a natural cause of enhanced value in regard to every commodity. The quantity of land, it is

true also, is circumscribed by the limits of the island; and cannot, like other things, *be augmented in supply* by the inducement of increased price, so as to lower again its value in the market; as would be the case with regard to a high price for the *produce* of land. A period might therefore arrive when the landlord could *arbitrarily* advance the price or rent of land beyond all reasonable bounds; or, at least, to the full extent of the profits which the farmer and the public might otherwise hope to derive from the lower rate of interest considered as a reduced charge on production.

To this disposition in the landlord an efficient and perhaps a necessary check might be given by the enactment of a law to the following effect:—That, *for the comfortable maintenance of the aged and infirm,* (not the able-bodied, for whom a rigid penal statute against idleness should then be passed), in every parish; the *uncultivated land* throughout the country should be assessed, and made to bear the charge for the poor, in the proportion of *double* the rate upon land in cultivation; that no other property whatever, nor industry in any shape, should be legally obliged to contribute thereto, except in the proportion of *one-half* of such rate; but that all *idle and useless* land—*every field in the country which should be neither grazed, drained, plowed, sowed, nor improved during the year*—should so bear a double proportion of this tax; and in default of due payment of the same (after sufficient notice), that a portion of such land, adequate to produce the amount of the rate so levied, should forthwith *be sold by auction,* and the proceeds applied to the purposes of the Act. This would appear to be only an equitable enactment, inasmuch as it is not just *that the land which fully performs its inalienable natural duty of supporting the community upon it from its annual produce,* should be taxed *for the benefit of the idle land;* nor that *the industrious* portion of the community should be compelled to support those in idleness who are poor, not from

want of opportunity or ability, but *from indolence and aversion to work.*

The necessary effect of this mode of levying the Tax for the Poor would be, that in exact ratio as new land was prepared and old land was improved, and employment became more abundant, *the poor's rate would diminish;* whilst the turning the present pauper rural population upon the waste land to prepare it for culture, and upon the cultivated land to improve it to the utmost degree, would result in a more abundant production; which farmers, in consequence, could better afford to sell at the lower price than they can the present straitened production at a higher price; because such improvements of the land yield so much more than the capital expended on them, as materially to lessen the whole cost of production; whilst the market for agricultural produce, like that for every other commodity, would expand in proportion to the reduced scale of prices. The provision of ample employment for the poor would, besides, destroy that excuse, which the want of it now furnishes, for pauperism in that class, now the most numerous of all, namely, that of able-bodied workmen.

Such a law must, of necessity, stimulate the landlord either *to let his farms, or to cultivate them himself;* and ought, perhaps, under any circumstances, to be enacted. He would doubtless and naturally after such a reduction in the value of, and such facility of obtaining, money, as we have supposed, endeavour merely *to raise his rents proportionately* upon the tenant farmer; and in this he would probably at first, to some extent, succeed. But in this respect again he would find a further and adequate check in the virtual repeal of the Corn-laws.

For the owner *of land,* like the owner of cotton, *cannot fix a price independently of the demand;* and the demand will be *only as the profits* enjoyed by the party renting or purchasing. Eventually, therefore, the landlord *must be defeated* in such a course, so long as the prices of produce

are kept down by the opening of the British market to the produce of *all foreign farms;* or, rather, the benefit, as it ought to be, of the reduced rate of interest, *would be divided* between *the landlord, the farmer, and the public;* the latter always gaining, out of all proportion, the largest share; not only through the medium of the low price, but also indirectly in the commercial stimulant through the great increase of expenditure in wages—to the farm and other labourers—and the augmented means of consumption of all commodities thereby diffused amongst the population generally.

4.—AS THE MEANS OF AUGMENTING THE NUMBER AND SCALE OF THE MOST USEFUL PUBLIC WORKS.

That such must be the result of a permanently moderate rate of interest is evident from the general principle already explained,* that *the profits derived from fixed property being governed* chiefly *by the rate of interest, comparatively with the scale of the returns;* the lower the rate of interest chargeable on the capital expended, the greater must be the scale of profits; and, the stimulus to such investments being in the same ratio, the irresistible consequence is that all those great works of national importance and general utility, tending to reduce the cost of production by curtailing *the time and expenses of transport*—such as railroads, highways, and canals—must legitimately multiply; whilst the greater activity of trade, promoted by the very process of their construction,† tends, at the same time, to *ensure* the promised scale of return.

And that such undertakings, but more especially *Railways,* should be *fostered* rather than *discountenanced* by the Legislature of the country, is apparent on many grounds. What have not railways already effected for *agriculture and commerce?* Is not the produce of the farm, with the live stock and slaughtered animals, now carried fresh to

* See section I. † Section XVI.

market in the space of only a few hours, over a tract of two or three hundred miles; and from all the intermediate points to the next or the best market, however distant? Will not the pasture hills and valleys of *Scotland* immediately be brought within *a few hours of the metropolis;* and will not those hills and valleys, with all the intermediate country, from that circumstance solely, approximate in value to that of pasture land in Middlesex, save only the difference arising from the comparatively small additional cost of transit?

It is impossible to estimate the benefits derived by the public from the railroads already constructed. How many parties now transact their business at a distant point, in person, who before were obliged to leave it to others? How immense too the sum now annually saved in *interest alone on property in transitu,* to say nothing of the *charges of transport?* A wool merchant of the olden time recently stated that *not many years* ago, he was compelled to hold *constantly upon the road* between various points and the town of Leeds £50,000 *worth of wool;* owing to the length of time (weeks and months) then consumed in its transport. This item of charge upon industry—this waste of capital—may now be said to be entirely annihilated. How many thousands of cattle, also, are now saved annually, which formerly died upon the road, or arrived at the end of a journey of a hundred miles in a state of disease—not to mention the expenses of the drovers and of feeding by the way? These, and such like, are the valid reasons why a leading railway makes so good a return on the capital invested, namely, *the saving to those who employ it:* and, if such a railway were to yield its owners even 20 per cent. per annum, the advantage in every way is so great that it would yet be liberally supported as being one of the *cheapest* facilities to commerce still. But the better policy would, of course, be to encourage the multiplication of such undertakings until the *competition to serve the public the most*

economically and the most satisfactorily, should reduce to their natural level the charges upon now such indispensible means of intercourse, and augment their present accommodation and convenience to the public.

Nor is it altogether unworthy of consideration that the *national architecture*—that appropriate ornament to a great empire—must derive, in various forms, under the same prosperous auspices, an impulse and encouragement which probably no other instrumentality can supply.

5.—AS THE MEANS OF INDUCING CAPITALISTS TO EMPLOY THEIR CAPITAL IN ACTIVE INDUSTRY *directly*.

The tendency of the present legislation, *by restricting the quantity* of money, is *to advance*, in the same degree, *the rate of interest*, and so to augment the capitalist's inducement *to lend* rather than *to employ* his capital in useful industry. Capitalists lend their money to bankers and bill brokers, who borrow it at one rate and lend it out at a higher to the public. The interest is thus *added to the price* of all commodities, and paid by the public consuming or using them. What is this capital? It is a man's savings or acquirements beyond what he spends. One man invests his fortune inherited, or saved from trade, in an estate, which he improves and renders more productive; another retains his fortune or savings in *money*—so called.* Why should the law show a preference to the latter to the disadvantage of the former? The proprietors of estates and the owners of general property are an infinitely *larger* class than the holders of floating capital in money; and are therefore that class which on public grounds ought first to be considered in legislation. For the alleged benefit of the many, the demand of the landlords for the maintenance of the Corn-laws, has been disregarded, although they constitute so much more

* See Section X.

numerous an interest. The voice of the British shipowner, for protection to the shipping interest, upon the same rule of legislating for *the many*, is henceforward to be disregarded also. It were, however, quite as natural that the landlord should resist the possibility of lowering his rents, or the shipowner oppose the admission of foreign ships into British trades, as that the so-called money capitalist should pronounce to be dangerous to the country, the attempt to legislate in Currency too upon public principle only.

In connexion with any plan providing for a permanently moderate rate of interest, were provision to be made also, by means of a national system of Banks of *Issue*, having colonial branches for extending any domestic improvements in Currency to the dependencies of the British Empire; the effect there also must be the expanded cultivation of the soil, the improved wages and revenue of the labouring and general population, an increased demand for our manufactures, and the consequent enlarged market for its increased productions, with a proportionate addition to its aggregate colonial wealth, and a corresponding degree of political elevation.

Nor need it be doubted that, were the feasibility apparent, of establishing *on a solid and sound basis* such permanently moderate rate of interest, so important an application of the laws of political economy would be, on its own merits, at once imitated and adopted by other civilized nations; which, through that increased prosperity and enlarged means of consuming our productions, must further re-act upon the growing commerce of this country.

6.—AS THE MEANS—OF CONVERTING SYSTEMATIC PAUPERISM INTO A SOURCE OF NATIONAL WEALTH; OF A MORE EQUAL DISTRIBUTION OF TAXATION; AND OF THE GREATER PRODUCTIVENESS OF THE REVENUE.

In Ireland, perhaps, *one-third* of the total population, or nearly *three millions* of souls, may be said to live as *paupers;*

subsisting almost exclusively upon *potatoes*, and at an expense, perhaps, of little more than *a penny per day per head:* thus consuming almost nothing besides this pittance-worth of the poorest sort of *food*, and of *clothes* and *furniture* even less. Let us suppose that the annual expenditure of this numerous population is at present about £2 per head; but that by immediately employing the whole upon the land, in the construction of railways and other great works, or in manufactures, the income of each individual of the three millions was raised to 10d. per day, or £15 per annum: the aggregate personal income and expenditure in the one instance would be £6,000,000—in the other it would amount to £45,000,000. In the latter case the consumption of food *of all kinds*, both foreign and domestic, and of manufactures, must necessarily augment in the ratio of such increased expenditure: and the demand for so much additional food and manufactures must employ a proportionately increased amount of labour in their production, as well as promote an equal expansion both of domestic and foreign commerce. The same rule is obviously applicable, in much the same manner and degree, to the numerous paupers and partially employed population of *England* and of every other country.

But whatever became the cause of such general employment amongst that portion of the population, now the most depressed from the want of all regular means of self-support, must, in the same degree, tend to elevate morally and politically the whole class. As it is upon that portion of the community that every suspension of industry and commercial enterprise, through an advance in the value of money, immediately and most severely presses;* so a permanently low value and adequate supply of money for all useful industry, must exercise upon the same class the

* See Section I.

most favourable influence. It must therefore at once strike at the root of the grand vices of our social system; and, by furnishing the great mass of the population with the means of comfortable subsistence, must effect that which is absolutely essential as the precursor of any efficient plan of *national education;* and without which every such plan, from the nature of the case, must fail of reaching its most needy objects: for a child that has *to beg or steal* to procure the means of purchasing a breakfast, will be in no haste or mood to attend the *public school,* however ably conducted. So long as poverty, ignorance and crime are mutually inseparable, whatever conquers the first evil will be most certain to gain an ascendancy over the other two. It must therefore follow of necessity, that whatever should act as the most influential premium for the more general activity of industry and commerce, affording the population a sufficient and just rate of wages, would do more for the civilisation of a country (not excepting that most wretched one of all—*Ireland*) than can be effected by any merely *superficial* means like those heretofore attempted.

The necessary consequence, then, of an adequately enlarged field of remunerative employment would seem to be, that a mass of unproductive power, composed of several millions of individuals, now maintained in idleness at the public charge, must, as respects the great body of them, become emancipated from their present demoralising condition of abject dependance; and thus, instead of being, as now, one of the heaviest burthens upon the community, that populous class must find itself restored to its true relative position in the body politic, as constituting so considerable a proportion of that element which, both in theory and practice, is recognised as the principal source of a nation's wealth.

And not only would the tax on the industrious be thus mitigated to so important an extent, by means of such an expansion of the field of employment, but the value of so

much industry, added to the materials on which it was employed, would be also an addition of so much to the national substance; whilst the augmented income of so large a number, in the shape of regular and full wages, in lieu of the former miserable pittance from the parish, would create that now ample source from which would flow an augmented personal expenditure of the whole population, and that general activity and prosperity of trade, which, in our position of mutual relationship, as before illustrated,* must diffuse the common benefit from our own to countries the most remote.

Nor need we stay, perhaps, to notice a superficial objection which may be started against our position, namely, the *effect upon the value of labour* which must arise from this additional demand for it. The grand design of all legislation, and of the science of political economy is, as we have before said, to secure the *greatest amount of happiness to the larger number*. If that object be secured by the proposed, or by any other process, it would be equally absurd, as it would be inconsistent with that great indisputable law of the subject, to propose the *undoing of the whole*, simply because it had been found incompatible with *a low scale of wages:* which is the obvious drift of the objection, if it have any force at all; an objection which overlooks also another equally certain law, namely, that *the ability to pay any given rate of wages* is limited only *by the scale of profits* upon the industry to which it appertains.

The Rates for the Poor would by these means be lightened individually, both through the reduction, and through the more general distribution, of the amount levied.

The same principle, of a more equal distribution of the burthen, would materially lighten also the individual pressure of *the present rates of Taxation generally*. And not alone

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* See Section XVIII.

by its more equal distribution. The increased consumption of all articles paying the duties of *Customs* and *Excise*, resulting from such augmented individual expenditure, must, in the same ratio, augment the public revenue: For there is, perhaps, no law of political economy which is considered to be better established than, that *the use or consumption of all essential articles must increase with their comparative cheapness;* nor, in regard to the public Revenue, that the produce of the Duties has a tendency to augment with every step in the reduction of their scale.

Were the consumption of all articles chargeable with the present duties to augment (we may suppose, for example,) until the annual Revenue should rise from 50 to 70 millions sterling; a proportionate *reduction of the rates* of duty, and of the prices of the commodities affected thereby, must follow; to which there must again succeed a further gradual improvement of the revenue, until, by a repeated reduction of duties, their operation, as a *direct tax on industry or commerce*, would be almost neutralised; and yet without *necessarily* diminishing the ordinary income below its present gross amount—which, however, it might on other grounds be deemed expedient to accomplish.

This reduction of Taxation would also again be promoted, as at other periods when the rate of interest has fallen temporarily, by means of *fresh conversions of the public securities;* the Government being thereby enabled to borrow money at a profitable rate and to pay off the former annuitants: which, with the greater justice, might be done when more abundant sources of profitable and useful investment would, by the same agency, have been opened to them.

From all these considerations, then, we venture to deduce the following

CONCLUSION—

That *the interest of money* being, by so much, the heaviest

of all the charges on industry,* its adjustment (provided such be safely practicable) at a permanently moderate rate—by conducing to the proportionate enlargement of the scale of profits generally—must become the greatest stimulant to industry and commerce in all departments, and thereby promote the fullest employment of the population, the increased income of all classes, the extended consumption of all commodities, the improvement of the national revenue, and the accumulation of the aggregate wealth to the highest degree:

That is to say,—reverting to the definite truth which (having first considered the relation of *Land* and *Labour* to the subject) we proposed by the argument of this section to establish,—*The diminution of the cost*, involving *a proportionate augmentation of the profits*,† of productive industry, as the result of *a permanent and moderate rate*, compared with the present liability to *a capricious* and *exhausting advance, of interest;* becomes, *by natural and necessary relation, the grand incentive to*—or *that power which*, as *a third essential element of national wealth, sets in motion and sustains—the national industry.*

Commercial Capital, it may here be proper to repeat, *is created in the ratio* of this general industry;‡ and as the result of the combined operation of these three elements; being *in quantity limited and measured only by that value* § *which the produce of industry, for the time being, bears in market;* and which value of property, or *quantity of capital*, is *(cæteris paribus)* regulated by, and daily fluctuates with, *the temporary, ever-varying relation of the supply* of commodities to the *demand* for them.

That *temporary excess of demand too*, which, under the designation of *speculation*, seems to be the offspring and uncontrollable effect of *the prospect of profit* presented by

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* See page 3. † See Section I. ‡ See page 76. § See Section III.

numerous varieties of property,* as the early consequence of an established cheapness of money; and, on the other hand, that temporary excess of *supply*, which is the consequence, again, of that excess of demand which promotes a proportionate *advance of prices;* will both of them, if freed from all extraneous influence, in due time and with *comparatively* little public inconvenience, mutually adjust themselves, each to the other, under the great law of Supply and Demand, as before explained;† a law, however, which, whilst it is still pleaded in *theory*, is necessarily superseded by any attempt, through a panic action in the money market, *arbitrarily to influence prices*.

But the position we have sought to establish, as to the *prime mover* to industry, may be further exemplified and confirmed by a simple reference to *matter of fact*.

For it is a *fact*, equally indisputable and notorious, that the *greatest stimulus that has at any time been given to industry on the grand scale*, has been so imparted *only when the comparative rate of interest has been established at the lowest point*. The commercial history of the few years prior to 1826, 1836, and 1847, has shown, that the growth of the national industry had been gradual from the time that the money market had become settled at a moderate rate; and *that enterprise and industry had reached their furthest limit, when the rate of interest had fallen to about its lowest point*. Indeed, the most superficial attention must be struck with the *proverbial* fact, that a comparatively low rate of interest is *per se* an incentive to industry *of most prodigious force;* a *power*, so to speak, which is analogous in its commercial effect to the greatest of mechanical forces; one which, also, like those, is capable of producing great

* A considerable portion of Mr. Tooke's able History of Prices is devoted successfully to the proof, that the origin of the greatest of speculative manias has been the simple *prospect of profit* presented in the commercial position of the commodities upon which it turned.

† See Section XII.

mischief; but still one which, *if reduced to an easy control and skilfully directed to objects of public utility*, would also like those invaluable forces in physics to which it is indeed analogous, become a power of the highest practical importance and benefit.

We are now speaking to *matter of fact*, which, it may be observed, has been equally exemplified in the commercial history of all countries.

But it will be asked,—How, then, does *a low rate of interest* come to be regarded almost universally as the instrument solely of *national speculation and commercial disaster?* or, How does it come to pass that modern legislation in Currency, based upon this popular idea of the subject, has been directed chiefly, although unsuccessfully (as the event has shewn), to avert, as the greatest of national calamities, this periodical cheapness of money? It seems essential to the progress of our argument, that we should endeavour to trace to its source this popular and influential view. Let us then suppose, for example, that all this prosperity to which we have just referred had been growing up gradually, and that the sphere of industry had been continually widening, from year to year, with the increasing abundance and cheapness (or "*glut*," as it is called) of money; until the prices of fixed property had advanced nearly 100 per cent.; and *produce*, too, as the *first* effect of this abundance of money, and as the consequence of increased consumption by a fully employed population, had also advanced materially; whilst *capital* had become abundant in the ratio of this augmented value of property, and had found ample scope for employment in a multitude of new undertakings, *promising* the most satisfactory return. What *single power*, what circumstance in the whole range of events, *would be competent of itself*, and without collateral aid of any kind, *to convert the whole of this scene of activity into a condition of equally extensive ruin?*

It appears to us *impossible* to assign any other instrumentality individually adequate to produce *a reverse* of this supposed case to compare with that ruin and confusion which assail, at this moment, the very foundations of the national prosperity, and in the degree in which it is accomplished by the *simple contraction*, suddenly and rapidly, of the circulating medium,*—or the *physical means of making payments*,—accompanied by an equally rapid and sudden *advance of the rate of interest* † from 2 to 12 per cent.!

To refer, however, to the previously *low value of money* this state of commercial desolation, which appears naturally to originate in the very opposite extreme, namely, *in the frightful advance of interest;* is to impute to the only source in which the previous activity could have taken its rise, that prostration of the national industry which is the *necessary* consequence of the latter.

For, whilst it is true that *a motive power*, which is efficient so long as it is applied, must necessarily cease to be so when withdrawn from its object; it must also be true, that a state of national prosperity, which had its original impulse in *a given supply and value of money*, is by an equally natural law suspended and reversed, when that commercial impetus is *not only withdrawn from*, but is *turned against*, all that it had previously fostered.

Should, however, the great principle we have now advanced and supported be still objected to, on the ground of its possible tendency, through a lower value of money, to stimulate speculation, we must reply, that both its tendency and design are the very opposite. *To leave things as they are*, experience has shown, is to lay ourselves open to the repetition of speculative excitement in its most dangerous form.§ It is *under the present system of currency*, be it remembered, that such things have so frequently occurred.

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* See Section VI. † See Sections V. & VII. § See Sections XI. & XII.

Returning, in uncertain periods of five or seven years, with that excessive cheapness of money, which results under the present law, from an accidentally copious influx of bullion, and originating necessarily, as we have shown, in that source, it becomes *impossible* under the existing laws to avert the disastrous visitation of such *illusory* prosperity.

Now, what we propose is, *to remedy the evil,*—not to produce *that excessive* (excessive because not *permanent*) *fall of interest,* which, under the present system, may have given birth to too expansive enterprise; but *to render its recurrence impossible;* by substituting another constitution of currency, *the definite and sole object of which is to obviate,* on the one hand, *the possibility of the rate of interest falling temporarily to so dangerous a depth;* and, on the other, *to render it equally impracticable to advance the rate to an opposite extreme;* but which shall have the intermediate effect of *maintaining the value of money,* with reference to a given class of securities, *at an equitable average rate* of interest, *a rate rendered so permanent as to constitute*—what does not now exist—*a Fixed Standard of Value.*

Section XXII.

ON WHOM DEVOLVES THE RIGHT AND THE DUTY OF ADJUSTING THE RATE OF INTEREST.

If we regard *Money as a commodity falling under the same general laws of commerce as Cotton;* and *the rate of interest* on the former as analogous to *the price per pound* of the latter; the right of regulating either the one or the other (subject to the state of the *demand*) will naturally devolve upon the *owners* thereof. *Who* then, we are now to inquire, *are the owners of the currency* of a country? "*Capitalists,*"—will probably be the reply. By that designation *here* is of course meant only *money-capitalists.* But, Is the currency of a country, we must further inquire, the peculiar property of that class?

It has already been remarked* that *capitalists so called may not,* and *generally do not possess money beyond the sum of their daily personal expenses.* But they have placed it in Bank, or with a broker "at call." These parties again, however, have no such sums of money as the nominal amount of *the deposits* with them would seem to represent; those sums in fact, *as money, do not exist.* They were indeed received or transferred, originally, from capitalists and others, for the purpose and on the implied understanding of their being, as soon as possible, *sub-lent again to third parties,* on various securities, fixed and floating. So that bankers and brokers too, although possessed of almost countless wealth, have still *in hand,* comparatively therewith, only the most insignificant fractional portion of the currency.

Again, then, who *are the owners* of the currency? Those to whom the bankers and brokers have paid it away?

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* See Section X.

These, too, have only received it for the purpose of immediately parting with it to others; who, again, put it forthwith into other channels of circulation. So that, were the *cash boxes* or *tills*, containing the aggregate of bank notes and cash, *in the hands of the commercial public*, to be examined on the evening of any day, and the owners to be asked as to the destination of their contents, it would be found that *the whole* (except the usual reserve) was simply lodging there for the moment, *to be again distributed* on the following morning *to others to whom it was owing*, and who were the debtors of still remoter parties, to whom, and *by* whom, it was immediately to be paid away also.

Thus, as a river, whose course is through a succession of several landed properties, can be absolutely claimed by neither proprietor, although upon his own estate; so *neither ought the currency*—the substantial *money*—of a country *to be* (without remedy) *absolutely appropriated by any*, although it becomes, by turns, as obviously the property of all.

But, should the currency be further analysed, it would be found that *fully one-half* of the whole amount *is, strictly, not money at all:* that large proportion of it, consisting only of *the simple promise to pay* money on demand; that is, the *promises of Bankers to pay money* for some *forty millions* of Bank notes, when *there often does not exist* in those Banks *coin* (which, under the present system of currency, is the only *money proper*) *to pay one-third*,* and seldom over *one-half*, of the *portion of the currency which is represented by such Bank promises.*

These essential points in the particular inquiry now under consideration are notorious matters of fact, which ignorance alone will dispute; and, in our humble opinion, they amount to the most conclusive proof that *the currency,*

* On the 9th of October last, the total circulation of Bank notes was £34,705,245, and the total amount of bullion in the Banks £11,061,356.

even on the most liberal construction of the term, is *something essentially distinct from the wealth* either of *the Capitalist* or of *the Banker:* that, in fact, *every* capitalist, whatever his property, whether *in merchandise* or in *an estate,* or in *money capital,* so-called, *has an equal* right to the fullest use of the currency: and that, as being *the only medium of circulation for all, it can neither be monopolised nor hoarded by the passing holder,* without involving *an act of deprivation, as respects the community at large,* for which *no adequate compensation can be made.*

The currency, or money, of the country, is, by the strictest analogy, *the Queen's Highway;* and the act of *the monopolist* or *hoarder,* in a time of scarcity, resembles, in its effect, that of the traveller on the public road, who, immediately on passing himself, should erect and shut a turnpike after him, and by that means close *a common thoroughfare* against all others.

The question still returns then,—"On whom devolves the duty of regulating the rate of interest, or *the money value* of the currency? and the simple answer is,—"On those *who have the power to regulate the quantity* of the currency." Who then are they? In reply it will probably be said, the value, or interest of money, under the Act of 1844, *regulates itself;* or, is *according to the fluctuating quantity of bullion* in the banks. But is it the *fact* that the quantity of currency, and the rate of interest, are so regulated *absolutely* by the quantity of *bullion?* Let us look to this point.

The rate of interest rose to 12 per cent. in October last, as the available currency became contracted, through the reduction of the bullion in the Bank of England to 7 *millions.* Let us suppose, for illustration, that the quantity of currency had then been really regulated, that is, *limited,* by *the quantity of bullion only:* suppose, for example, the 14 millions *of issues on securities* to have been *also called in,*

which, in fact, would be nothing more than *regulating the quantity of currency by that of the bullion;* what must then have been the rate of interest with the co-existing scale of commercial transactions? *Interest* must necessarily have risen to 30, perhaps 50, *per cent.* or more, until that scale of commercial transactions had become, as it gradually would have been, contracted *within the limits* imposed by so oppressive a charge for the use of the currency. On what *authority*, then, and on *what grounds*, is the currency *expanded beyond*, instead of being *limited by, its bullion basis?* "On *legislative authority*, and *for the public good*,"—is the obvious and only reply to this inquiry.

On *the Legislature*, then, has heretofore devolved *the duty of regulating that* which *regulates the rate of interest*, namely—*the quantity* of currency: indeed it may be said that almost *every other matter* relating thereto, even to *the changing of its standard*, at different periods, and *reducing the weights of specific coins*, has uniformly, and in all countries, fallen within the *Royal* or *Legislative* prerogative.

Such important changes in the value of the currency as *reducing the weight of coins* from time to time, are strictly analagous in their design and effect, to the modernly substituted composition of what is termed *a mixed currency:* which —taking *the Bank note circulation* of the United Kingdom at 40 *millions* to be represented by only 20 *millions* of coin— is a currency of precisely the same *intrinsic* value as it would have been, had the *sovereign* been simply *reduced to half its present weight;* the currency thereafter remaining exclusively metallic. But *whence arises the motive to*, or *the necessity for*, either the ancient custom of debasing the coin, or the modern method *of admixing it* thus with a material of no intrinsic value? Except, of course, where gross fraud was the object of debasing the coin, that motive is *the public exigency:* an annual expansion of the field of commerce, with a rapidly growing population, the advance

of civilization, and a proportionately augmented consumption of all commodities; circumstances which every principle of political economy, which *nature* itself aims at, and which cannot be either safely or wisely confined within the arbitrary limits of a scanty and precarious annual addition to the supply of gold or silver; but which in the nature of things *must* be so confined in every country which attempts to enforce so unnatural a conformity between the limits of the national currency* and such an insufficient and uncertain supply of coin.

To augment the natural supply of the precious metals proportionately to the scale of the currency demand for them, *is not within the province of legislation.* The alternative, then, was *to deny to the population,* from the want of a sufficient currency, *those means of subsistence* which extended industry and commerce (dependent, we have seen, on the quantity of currency) could alone supply; or, on the other hand, either *to reduce the weight* of the current coin, or else to *debase it by alloy of inferior metal,* or *by a mixture with paper.* The latter alternative and process, in modern times, have been uniformly and wisely, perhaps, adopted; for, otherwise, to what pitch must *the rate of interest have been advanced,* or rather, *within how narrow limits must the scale of commerce in all nations have been, in consequence, reduced?*

But where, we must again inquire, lies *the difference of intrinsic value* between a currency,—20 *millions* of which is composed *of sovereigns of the present weight,* the other 20 of Bank note paper;—and a currency of 40 *millions* composed of *gold sovereigns of half the present weight,* which, by the same law which now constitutes *paper* legal tender, should be declared of equal value to what was double the weight previously to such debasement?

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* See Section VI.; also p.p. 117 and 118.

The difference would seem to be *in favour of the country*, from the circumstance, at least, of the public then ceasing (as must be the case) to be at all liable to that degree of inconvenience which, with a *mixed* currency, now results from the periodical alarm and danger of *inconvertibility*.

And it is most probable that all other countries in which a mixed currency now obtains, would (had we done so) have continued to this day the original process *of debasing the coins* in order to extend the circulation: which it is evident they might have done without *diminishing* its *aggregate* weight or its *intrinsic* value.

Equally, then, on the score of *ancient precedent* and of *modern practice* must it be allowed (indeed it is not disputed), that *the prerogative* of determining the quantity of currency, and, by necessary consequence, *of regulating the rate of interest*, is vested in *the Legislature*. The proof of this is completed, however, *by the enactment of the law of* 1844, in conjunction with *mandate of the Crown* to the Bank of England, under date of the 25th of October last, *authorising an enlargement of its power to issue paper beyond its bullion basis*, and *absolutely fixing the minimum rate of interest at* 8 *per cent. per annum!*

The conclusion from this branch of our inquiry, then, is, that *upon a sufficient public motive, the Legislature has full powers to Reform the Currency*, with the object (if the public good demand it) *of providing for an equable or fixed rate of interest;* that *the public responsibility for their due and proper exercise* rests also with the Legislature *in the ratio* of those powers; and further, *that no special class has grounds* on which to prefer claims *superior to those which every other class* of her Majesty's subjects may justly urge upon the Legislature, whether for or against the exercise of such powers, when directed to render more efficient to the public service that most essential and most

important instrument of all commercial prosperity, namely—*the National Currency.**

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* The following Table exhibits the principal changes which have been made *by authority* in the value of English money :—

		The Pound Weight of Silver A.D.				
1	William I.	1066,	was coined into	£1	0	0
28	Edward I.	1300,		1	0	3
18	——— III.	1344,		1	2	6
25	———	1351,		1	5	0
13	Henry IV.	1412,		1	10	0
4	Edward IV.	1467,		1	17	6
18	Henry VIII.	1527,		2	5	0
34	———	1543,		2	10	0
36	———	1545,		4	16	0
37	———	1546,		7	4	0
4	Edward VI.	1550,		14	8	0
6	———	1552,		3	5	0
4	Elizabeth	1562,		3	0	0
43	———	1601,		3	2	0
56	George III.	1816,		3	6	0

See "An Essay on Money, by John Taylor," page 69.

Section XXIII.

OF "CONVERTIBILITY;"—ITS OBJECT, AND THE PROCESS BY WHICH IT IS SUPPOSED TO BE SECURED.

The *only security against depreciation* in the currency, it is said, is *convertibility*. This is obviously what is termed by logicians an identical proposition. It is tantamount to saying, that *the only way to keep things equal is to prevent them from differing*. A paper currency is, of course, certain never to be depreciated below, but always to continue equal to, gold, *so long as* the equivalent amount of gold may be obtained in exchange for it; and the only way of preserving it in an exchangeable state is, of course, *to keep up* a sufficient quantity of gold *for the purpose*. There is no difficulty whatever in this truism, nor any possible objection to it. The difficulty lies not in the *abstract doctrine*, but in prescribing *how*,—without convulsively arresting the industry of the country, or without offering an adequate inducement for gold to remain, when, attracted by so high a foreign premium, it must otherwise leave the Bank,—that sufficient *quantity of coin* is, for such purpose, to be maintained. The Act of 1844 *professedly* was the practical deduction from all previous experience in Currency; had engaged the highest reputed financial ability; and was directed to *this single point*, namely, to enable the Bank to *give change* for its notes when presented, or, in other words, *to secure their perpetual convertibility*. But the Bank was not furnished at the same time with any *process or principle* by which its coin, when the drain was upon its coffers, could be *augmented*, so as to provide *the requisite quantity of* "*change*" for the return of its notes for bullion. The

Bank was merely obliged by law, without regard to any commercial consequences of such a desperate course, *to contract the latter* as its coin was carried away: the effect of which could only be the fearful state of confusion we have before adverted to.*

We are not now objecting to the doctrine of convertibility; but we are not therefore forbidden to expose the delusive and fatal issue of all further attempts to carry into practice that doctrine upon the principle of the Act of 1844, or of any law akin thereto. The *experience of October last,*† and *the frank acknowledgment of that member of the Government* who had been *in theory* one of the chief promoters of that Act, are evidence, perhaps, the most conclusive that may be desired of *the utter impracticability of that principle.*

It may and will, be said, however, that the operation of that *contractive* principle in the Bank Charter Act, had still *the effect of bringing back bullion* to the Bank. That the stock of bullion *did increase after the contraction* cannot be denied; but that it so increased, *as the effect* of *contraction;* and that it did not so increase, *as the result of suspending the process* of contraction, can, of course, only be made apparent by demonstrating *the relation* of that process *to the cause of the drain.* A drain which results naturally from a high foreign premium on gold, the necessary consequence of a temporary foreign balance and fall of exchange against this country, has an origin which is simple and intelligible. It is a commercial profit, as we have shown,‡ (it may be) *of fifty or two hundred* per cent. per annum, upon all the gold which, under such circumstances, may be exported abroad—from the stock of the

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* See Section VI.

† See Note to page 42; also to page 45; and page 117.

‡ See Note to page 57.

Bank principally. What *relation*, then, has *the contraction* of our currency *to this cause*, as a means of *counteraction?* The *design* of that process, if it have any object at all, is *to ráise the value* of our *currency*, so as to render it more profitable to money-capitalists to leave the gold undisturbed in the Bank than to take it away.*

But is it even *rational* to suppose that a *domestic* premium of *nine per cent.* rise of interest, against a *foreign* premium of *fifty to two hundred per cent.* per annum upon gold exported (of itself, that is, apart from the accompanying suspension of confidence *and of exports generally,*) can counteract a drain which is stimulated by a foreign premium, beyond all comparison, so much greater?

Convertibility, therefore, from its utter deficiency of any self-sustaining resources, is *of itself*, and as, under the present system it is supposed to be maintained, entirely inoperative to preserve in any degree the currency *from depreciation with reference to foreign* currencies or *to our own*. Convertibility, in fact, merely ensures (that is, *so long as it lasts*), that *the foreigner* shall at all times and under all circumstances be able *to obtain our gold at the same price;*— although its value to him is so greatly enhanced, and although amongst ourselves business and employment are so calamitously suspended through the mere *export*, temporarily, of so much bullion. Convertibility preserves the currency equal to its present gold standard *for the convenience of the foreigner alone;* and so that for every £3 17s. 10½d. *he may* be able at all times, as we have said, at that invariable price for every ounce of standard gold, to extract the basis of our whole commercial system; to our own confusion, in the first place, and *eventually* to that of all our foreign commercial relations.

As the high foreign premium referred to, which becomes

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* Section X.

the great stimulant to an exhausting drain of bullion,—and against which neither the principle of "*convertibility*," nor, indeed, any other principle of the present system, furnishes a counteracting influence,—is the result of *a certain position* of *the Foreign Exchanges;* it will now be necessary to consider *these,* with the view of endeavouring to place them, with relation to the domestic currency, commerce, and industry, in their natural position of *subserviency* to, instead of the present oppressive despotism over, those great national interests.

Section XXIV.

OF THE RELATION OF THE FOREIGN EXCHANGES TO THE CURRENCY.

The *intrinsic* value of 100 *sovereigns* which *a sterling bill* on London for £100 represents, is *a certain fixed price* in every foreign country; but *the market price* of such bill is governed, notwithstanding, by the law of supply and demand; or by the *quantity* of such bills *offering for sale* with relation to the number of buyers for them. For example: A sterling bill on England for £100 will, within about a month after the purchase of it in New York, enable the buyer to transport thither in exchange for it 100 *sovereigns;* which, at New York, are, at all times, convertible into about £108 net* in *United States currency;* the metallic standard purity of equal weights of the same coin in both countries being about so much higher in England than by the assay of the United States. The addition, therefore, of about 8 per cent. net to the United States currency brings the two currencies to a *par* (as it is called) *of exchange.*

But the *market value* of the sterling bill for £100 is regulated, as we have said, *by the quantity of such bills offering.* If so much in excess of the demand, the price may fall to £103, although the intrinsic *net* value to the buyer may be £108; who, therefore, clears a profit of £5 on every £100 of such bills purchased, so soon as the proceeds in British gold arrive at New York: a *profit,* to realize which, it takes little more than *a month,* between this country and New York, and less than *a week* with most Continental cities. The premium in the former city, on

* The exact difference intrinsically between the United States and the British metallic standard is 9 23-40 per cent. in favour of England, making the £100 British sterling equal to £109 23-40 of the other.

the import of British gold, when exchange falls to £103, is thus (as we before have had occasion to notice)* little under 50 per cent., and in the cities of the Continent it may be 150 to 200 per cent. per annum. This great premium is *created by*, and must *continue with, the same excess of sterling bills on sale abroad;* and the drain of English gold, whatever be its commercial consequences to ourselves, is thus constituted, for the time, the most profitable trade which can be carried on. This, then, is *the relation of the Foreign Exchanges to our Currency:* a relation which involves periodically and of necessity the foreign drain of its basis; which, under the present system, as experience shows, is made the occasion of a most convulsive shock to the commercial stability of the country.

It must, we conceive, from this simple statement of the case, be sufficiently evident that the mere process *of raising the rate of interest* must be one of the least efficient means, considered by itself, which could be adopted as a *check*, compared with such a *cause*, of a drain of specie.

The advance of interest even to the insupportable rate of 20 *per cent.* (apart from the destruction of commercial confidence which would accompany it) must be quite inefficient.†

The natural remedy for a drain of bullion obviously can only be some system of *Commerce* or of *Currency* which, during the course of such drain, shall afford *to all other classes* of traders, besides those so trading in the foreign exchanges, not only *an equal*, but *a greater* inducement *then to remit* to this country, whether it be in payment *for past* or in anticipation *of proposed* purchases; and not only from the country with which the adverse balance may exist, but *from all others equally*. It is true that such an inducement *to remit* and *purchase* would exist to the extent

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* See note to page 57. † See page 56.

of the same 5 *per cent.* with regard to the particular country having the adverse balance against us: but an additional inducement of 10 *to* 20 *per cent. premium on all remittances* made to this country, with *an equal discount on all foreign purchases* from us, during such drain of bullion;—an inducement which should exist at no other time, and in which the traders in exchanges for the drain of bullion, could not participate,—would be an *efficient, harmless*, and in every way, *a fair check;* or, what would be the same result, *specie would flow in*, under so great a domestic premium, *from all other points as fast or faster* than the adverse balance or the foreign premium stimulating the drain, at one or even more points, would be able to draw it away.

For example: let us instance the case in April last, when the great American houses were making a profit of perhaps some 4 or 5 per cent. per *month*, on the purchase of Bills on England in the United States, for conversion into gold to be exported thither. If the American *importers of our manufactures*, besides this 5 *per cent.* inducement had had *a further* 20 *per cent.* advantage, which, like the 5 per cent. referred to, would be available to them *only during the brief period of the drain of British gold*, and only provided they *then* purchased exchange *to remit to England;* and if, at the same time, all other parties, not only in *the United States*, but *in every other country*, who were indebted to Great Britain or who had purchases or investments of any kind to make in England, had this 25 *per cent. profit* as an inducement *then* to remit, but only during the drain of British gold by other foreign countries; it must be evident that *the demand for exchange* in *all* countries except in that with which the adverse balance existed, would, under a stimulant of 25 *per cent.* profit *bring specie from every foreign point;* whereas, under the present system, when a drain of specie occurs, the effect

upon the foreign importers of our manufactures, and generally upon all foreign capitalists, is *to alarm them*, and so *to delay their purchases*, by producing the natural impression that however low prices may have fallen, they must, as the result of the attendant money panic, *fall indefinitely lower*.

Were it possible so to constitute the national currency as that it should be permanently maintained of an equal value with its standard, incapable alike of appreciation or depreciation with reference to that standard; and this independently of the price of gold and silver; it would then also, and, only in that case, of course, be possible to present to foreigners the *premium* just explained; or that profit which would induce them, when an unavoidable drain to one point was in progress from this country, to send specie to us from all others. For, *having first secured the domestic currency invariable* upon its natural basis, *the prices of gold* and silver (upon some *fixed scale* of variations), *as the quantity diminished*, might then be free *to rise* in England until the adequate supply, as in respect to other commodities is the case, should thereby be attracted hither, from the surplus stocks of other countries.

The price abroad of the sterling bill for £100 in England *would then fall in the same ratio*. If, for example, the price of *gold* and *silver* should *rise ten or twenty per cent.*, the price of *the sterling bill* would *fall ten or twenty per cent.*—that is, the buyer of such bill at New York (we will suppose), for remittance to England, in payment of a debt, or for investment in goods, or otherwise, *would gain* that great per centage, *in addition to any per centage* by which the rate of exchange would have fallen, under the influence of the present causes of its fall, namely, *the mere excess of bills* offering for sale. The buyer of the bill *for conversion into British gold for export* to the States, would, on the other hand, at the same time, *be precluded* from all participation except *the latter* comparatively small profit;

inasmuch as the fall in the price of the bill, which would be *occasioned and measured* solely by *the rise in the price of gold* in England, would be neutralised to him by his having *to pay* an equivalent *extra price* for such gold on converting his sterling bill into coin for its proposed export to the States. Thus, if *the price* of the sterling bill of £100 had fallen from £108 to £103, *or five per cent.*, in consequence of an over supply of such bills; and had fallen *twenty per cent. further* in consequence of an advance of twenty per cent. in the price of gold and silver in England; all that the buyer of such bill for conversion into British coin would gain would obviously be *the first five per cent.:* as he would have *to pay* the other twenty per cent. *himself* as the advanced price of gold.

A currency then which, while it was maintained of equal value with the present gold currency, and secured precisely the same average scale of prices of commodities as those which have resulted from such gold currency; should admit of this premium to restore specie to the country after its necessary and temporary export, without at the same time involving any domestic depreciation of such general prices, without a money panic, and without any depreciation of the currency; may, doubtless (should it be decorous even to contemplate so great an improvement), be regarded as *the grand desideratum* of our commercial system; and as equally essential to the regular and satisfactory exchange of their mutual productions amongst the commercial nations of the world.*

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* See Section XVIII.

Section XXV.

OF THE CURRENCY STANDARD, AND OF WHAT CONSTITUTES *VALUE* IN A CURRENCY.

The subject of this Section conducts us to the profoundest department of the currency question, and we must regret our inability to do it more justice. Should we be so fortunate, however, as to carry with us to the conclusion the judgment of the reader, the sequel will not be difficult; and we may then advance with confidence to the practical outline of the plan proposed; but, failing at this point, all we have attempted so far, and all we have yet to propose, must be equally in vain. Still we do not quite despair. The subject itself, we are satisfied, is free from obscurity. But the defect (which we lament) of more force and perspicuity of style, compels us to solicit here, not only the greater effort on the part of the reader to dismiss any mere prejudices to the disadvantage of our argument, but the greater exercise of his forbearance also, should our desire to be understood clearly involve some redundancy of illustration.

1.—THE CURRENCY STANDARD.

The controversy which, on one side, has been raised, as to whether the *price* of gold be *fixed* or *fluctuating*, is, indeed, an extraordinary one. And merely to say that "the price is no more fixed in this than in other countries," does not, of course, meet the case at all. That £3 17s. 10½d. is *a price*, and nothing else, seems as plain, at least, as that two and two are four. That it never varies, in respect of an ounce of gold, is as plain *a matter of fact*. Other nations too have a fixed price for gold or silver. Were it not so, neither could perform the functions of a currency. It

is this fixing of the price which renders gold the standard of our own currency. Let it cease to be so; let another standard, of neither gold nor silver, be substituted; and the price of gold, under such new standard, would then vary with every change in the quantity of, or demand for, gold. The proprietors of the gold or silver mines would not then, as now, on weighing and assaying a piece of gold or silver at the mine, know what was its price in every foreign market before sending it there. They would send it there *first*, as farmers now do wheat, and the price would change daily with the supply and demand; but *now*, whatever the *cost* of finding gold, its return is the same invariable price. To say that the price of gold now changes with its quantity, because when the rate of interest rises every description of property is depreciated—is contrary to obvious matter of fact. The change is not in the price of *gold*, but of *everything else;* and without reference to the *cost* of such commodities. And here is surely a grand anomaly in modern commercial law: to keep the price of *one* commodity fixed at a point prescribed by law, that the price of every other may change indefinitely! Instead of walking to the mountain, it is like the attempt to make the mountain walk to you; or it is like fixing immoveably the needle of the compass to ensure the steadier course of the ship! To the present *currency* the legally *fixed price of gold* is the standard of value, but it is *not* the standard of value for *general property*. Of the value of the latter we have shown *the rate of interest* to be the only standard. A *fixed price* of *gold* does not, of course, fix the *interest value* of money. The former is fixed—the latter is ever variable. The law which makes gold the standard of the currency decides merely, that in every *hundred sovereigns* there shall be *as many ounces of gold* as is given by dividing £3 17s. 10½d. *into* £100; which weight of gold, or an equivalent bank note, every trader who has agreed to pay £100 as the price

of any commodity, is bound by law to provide. The *intrinsic standard* of £100 is, therefore, so many ounces of gold. Gold is thus the standard of value—but to *the currency only, not* to general property. The *price* of the *commodity* sold being first agreed upon between the buyer and the seller, namely, that it shall be £100, the gold standard simply defines *the meaning of that price.* It does not decide as to what shall be the price of the commodity *sold;* but it fixes an invariable price to the commodity with it which it must *be purchased.* The price paid for *a quarter of wheat* may be *fifty shillings* during one month, and during the following one *a hundred shillings;* but *the ounce of gold,* although a fixed quantity like the quarter measure, continues by force of law, and as quoted in the *Daily Prices Current,* at the invariable price of £3 17s. 10½d.

But the difference between the *fixed standard* for the *currency* and the *fluctuating standard* of value to *general property* lies in this—that the latter (that is, *the rate of interest*) goes to decide whether the commodity *to be purchased* be *worth the price* of £100 or not; and actually *makes it so,* or otherwise, according as the rate of interest on the money which has to be paid for it may be *high* or *low.*

2.—VALUE IN A CURRENCY, OR ITS PURCHASING POWER, IS NOT DERIVED FROM THE STATUTARY LIMITATION TO A METALLIC BASIS.

The existing laws *do not impart value to,* but merely *define,* the currency. They simply declare, *what a pound*—that is, a certain measure of value *in other things—shall consist of;* namely, that it shall be *a certain weight* of standard gold, in the proportion of *one ounce* to £3 17s. 10½d. In thus *defining the composition* of the *pound measure of value,* the *law* does not, even though ordaining *gold* to be its substance, impart to the pound its *purchasing power,* nor, *in the least degree,* confer *value* upon it *as currency,*

any more than if it had decreed its substance to be *brass*. But, on the other hand, by enacting that *a fixed proportional part* of the sum of £3 17s. 10½d. shall *invariably be equivalent to* that measure of value called *a pound*, the law *does impart value* to *the ounce of gold*; value which it does not, and could not, otherwise possess; and a value too which is *invariably the same*, whether *the quantity* of the metal *be double or half* at *one time* of what it is at *another*. The law *fixes* the *price* of *gold*, but not the *price* of *the currency*. "The *meaning* of *a pound*," then, is *that which the law may determine* it to be; and its meaning has, accordingly, *varied at different periods* with *the changing statutes* of definition.

The *measure of value itself*, called *a pound*, (not its *standard weight*) is alone *permanent*. A house or a field is still worth so many *pounds*, and the value of British property, doubtless, will ever continue to be reckoned, by that English measure, as being worth so many *pounds*. Of that measure *the twentieth part*, also, will continue to be called *a shilling* whatever legal changes may be hereafter, as they have before been, made in its *weight of silver*; and of the same measure, too, the *two hundred and fortieth part* will continue, through all similar statutory changes, to be *a penny*.

Again: the *measure* of value, called *a pound*, will ever, as heretofore, continue unchanged in this respect—that fixed property, which has yielded *five per cent.* per annum, will always continue to be worth a relative number of *pounds*, at a given *rate of interest* for money: that is to say, *the value* of the property, although it would change with *the rate of interest*, would not do so in consequence merely of any change which might be made in *the legal definition* of a pound; not, indeed, although the law should restore the pound to its *tripled* weight, as under the statute of Elizabeth; or should reduce its present weight of gold by *one half*; or, as under the Bank Restriction Act, should again decree

that "*the pound sterling*" should be *of no weight at all!*—should be, in substance, *neither gold, silver, nor of any value whatever!* For it is one of the curious anomalies of this subject, although one which seems as perfectly *confirmatory* of our exposition of "the meaning of a pound" as it appears to be *contradictory* of all *the avowed principles* of the existing laws; that, measured by its *price* or the rate of interest, the currency had really possessed *a higher* domestic value *during the whole period of the Restriction Act*, than it has during the period subsequent to the enactment of *the Act of* 1819:—that is, taking the average rate of interest in both cases. Yet for upwards of 20 years—from 1797 to 1819—the currency had neither *definition, standard*, nor *basis:* consisting merely of *a Bank promise (without security) to pay a pound to the bearer;* but under a statute which *prohibited* the *fulfilment of the promise—the payment of the pound*—by the promiser, *in any coin, commodity, or security whatever!**

Still, through all this anomalous position of the currency, the pound *measure* of value was unchanged, and the currency, being maintained of *greater* domestic value (as evidenced in the average higher rate of interest it commanded), possessed a purchasing power *greater* than even its subsequent *gold basis has had the virtue to stamp upon it!*

The *Law*, then, we conclude *does not*, by the statutory limitation of its basis to either *gold* or *silver, confer value in any degree* upon the currency. The province and efficiency of the law are confined to the exercise of the

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* And this exposition of the subject may throw some light upon a question which has been often raised, namely, as *to the amount of loss* sustained by the public at the period of the resumption of cash payments under the Act of 1819, *in consequence of returning to the old standard price* of gold, or £3 17s. 10½d.; instead of adopting *the market price of the day*, which was 4½ per cent. lower. That loss, it would seem, being in proportion to the effect produced upon the value of property and upon the country, through the sudden and frequent *advance of the rate of interest*, rather than in the ratio of any difference between the two *prices of gold.*

simple prerogative of *giving currency to*, or constituting *legal tender* as money, any substance or medium whatsoever; but still leaving its value to be regulated by other circumstances, which it will be necessary, in the next place, to consider at large.

3.—OF WHAT CONSTITUTES *MONEY* VALUE OR *PURCHASING* POWER IN A CURRENCY.

We have already shown that this is not derived from, or dependent upon, the *metallic* basis of a currency. We now have to show that *the measure* of *the value*, or of *the purchasing power* of a currency, is *the rate of interest*.

"The *profit*," says Mr. M'Culloch,* "derived from any undertaking is estimated by *the rate* which it bears to *the capital that was employed*." The *market value* of the property, it may be added, is *as the rate of profit*; and it is the same thing whether it relate to a *field*, or a *railway-share*, for which £100 *had been paid*,—or to 100 *sovereigns*. The *value* of each of these three properties is, for all practical and useful purposes, *fixed by the rate of its return* to the owner: so that, if each were, with equal certainty, rendered permanently productive of 5 per cent. return per annum, the market value of each must be *the same amount*. But the *peculiar* and *absolute power* of the £100 *in money* over the other two, and over all other descriptions of property, is exemplified in the circumstance that, although the field and the railway share were *certainly* and *invariably* productive of *the same return* of 5 per cent. per annum; their market, because their true, value *must fall to one-half* of its previous amount, should the available quantity of currency become so much contracted, with reference to the existing demand for its use, as to render the 100 *sovereigns* or £100 *note* certainly productive of 10 *per cent.* in lieu of 5 *per cent.* as before. Yet *the source* of this *power in the*

* Com. Dict., p. 251.

currency over all other property is not in *the character* or *value* of its *basis* as gold or silver, but simply in *the security* which may be afforded *for its bearing*, permanently or otherwise, *such given rate of interest.*

The *value of every investment* is thus determined by *the rate of its annuity.* Capital to the amount of £100, securely invested so as to return 10 *per cent.*, must be double the value of £100 of capital as securely invested, but returning *only* 5 *per cent.* per annum :—that is to say, if the market value of the latter be £100, that of the former must be £200.

And *the value of* 100 *sovereigns*, as money-capital, is, by the same rule, determined by *the rate of interest.* If it command 10 *per cent.* interest, the 100 sovereigns are of equal value to the £100 invested in fixed property returning 10 per cent. The true value of such 10 per cent. annuity would, therefore, be 100 *sovereigns*; and of the 5 *per cent.* annuity, only 50 *sovereigns.* If, again, the interest on the loan of 100 sovereigns were only 5 *per cent.*, the real value of the 10 *per cent.* annuity must be £200, and of the 5 *per cent.* annuity £100 :—that is, the certainty of the rate of return being supposed to be equal in all the cases.

By the same law, the value of £100 of consols to the owner, who, for that amount of stock, had paid 100 *sovereigns* as a permanent investment of so much capital; although it continue to yield him all that he had anticipated, namely, an annuity of 3 *per cent.*; is yet regulated and absolutely governed by *the rate of interest:* so much so, that what the owner had purchased at its *par* price of 100 *sovereigns*, when interest was *under* 3 *per cent.*, did not yield more than 79 *sovereigns* in October last, when interest had temporarily advanced to 12 *per cent.**

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* The possible objection to this, that the price of consols did not *immediately* advance again to the former value, when interest had fallen to nearly its former rate, is anticipated at page 114.

Let any person possessed of 100 sovereigns, or a £100 Bank note, reflect for a moment, and satisfy himself as to what it is that constitutes the value of so much money to him; and he must at once perceive that the elements of its use and practical value are two-fold:—first, *the power of procuring an equivalent quantity of some other commodity* more useful or desirable; and, secondly, *the power of procuring, by loan or investment of the sum,* a given return per annum *as a rate of interest or annuity.*

The value of the money represented by 100 sovereigns, then, does not consist in its being *so much gold,* but in its *purchasing power** as so much currency; nor is the gold the *measure of that power* of purchasing. The measure of the value of 100 sovereigns is, as we have said, the rate of its return, or *the rate of interest.*

Were the owner of 100 sovereigns, again, the owner also of £100 *of* 3 *per cent. consols,* and able to obtain only 2 *per cent.* per annum on the loan of the former, and that permanently; it must be to his advantage, compared with the loan of the money on interest, to purchase *another* £100 of 3 per cent. consols. And, as what would be to his advantage would be equally so to all other holders of sovereigns, the competition to obtain the better return or higher rate of interest, must force up the price of the £100 *of consols (cæteris paribus)* to something like 150 *sovereigns:* at which price the £100 of consols and the 150 sovereigns would then be only at *their par value.*

Neither is the *value* of *consols* created by the circumstance of *the dividends* being paid in *a gold currency,* but in the security for their returning the holders three per

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* In this sense Adam Smith has defined a *Bank note* (say of the Bank of England for £100) to be an order upon the traders in every town of the kingdom to deliver to the bearer the value specified in any commodity he may require. To which it may be added, that the power of 100 *sovereigns* in the hands of the bearer is not greater or different in any respect.

cent. per annum, in the existing currency, whatever be its basis; the *purchasing power* of the currency not originating in its *intrinsic* but in its *interest* value; as is shown also by the fact that, under the present gold currency in which the dividends are payable, the market price and value of the stocks will fall 20 *per cent.* on a given *rise* of interest: to which depreciation, during a proportionate and periodical drain of bullion, the present system of currency must ever subject *both the domestic* and *the foreign holder* of the national securities.*

The same rule applies to *Railway* stock, to a *Farm*, or to a *House:* that is to say, *the power* of any given quantity of the currency *to purchase* either, is measured, not by its intrinsic properties, but by *the rate of interest* which it bears, compared with the *rate of annuity* derivable from those various investments.

If the annuity from the railway stock or the farm were guaranteed by the Government to produce to the owner 3 *per cent.* per annum, neither more nor less; the value of *each* £100 of the capital invested therein would be precisely the same as that of *every* £100 *of* 3 *per cent. consols:* and the one would be equitably bartered for the other, without any medium of currency whatever.

And if the rate of interest for loans, upon a given standard class of securities, were equally guaranteed by the

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* The object of the *proposed* plan would be to *confine* this loss (having, in *his* case also rendered the inconvenience *less* both in *amount* and *frequency*) *to the foreign holder alone;* who also would still have the same opportunity, as now, of escaping such loss, provided he did not more than now (which would not generally be the case), *sell out* when the £100 of Government Stock (as in October last) was convertible into *the smallest number of sovereigns:*—that is, supposing the object of the foreigner in so converting his property into gold to be, to invest the same capital in his own or some other foreign country; the motive to which, in that case also, would be some better rate of interest, or of return from it; he could scarcely be subjected to a *greater*, and we believe would always sustain a much less sacrifice of the original capital invested by him under the proposed, than under the existing plan of currency; which equally with reference to *foreign* as to domestic holders of the public securities, and all other property so frequently entails an enormous depreciation.

Government to produce to the owner of every £100 of currency 3 per cent per annum, the value of such £100 of currency would be equal to that of every £100 of 3 per cent. consols, and to that of every £100 invested in other property, affording equivalent security for the payment of 3 per cent. yearly.

And how is the case, it may be asked, with regard to the several commodities constituting *floating property*? What is the measure of the purchasing power of a currency over these also? Apart from the relation of supply and demand, the measure of that power over them also is still (though not *directly*, as with regard to fixed property) *the rate of interest*.*

For example, as respects *the produce* of the farm:—If at a given rate of interest and a given average price of such produce, the annual net return on the capital invested therein, were so much above the net return of capital otherwise invested as to stimulate increased competition (which would naturally be the case) in agriculture; this greater return, depending also upon the existing scale of average prices of farm produce, would now be reduced as the consequence of the fall of prices through an augmented supply of produce: the effect of such increased competition. But the *prime mover* to this result was evidently the comparatively lower rate of interest, or the greater margin of profit between the rate of interest *on money loaned*, compared with its return *when invested*: for *the lower the rate of interest the wider (cæteris paribus)* must be that margin of profit.

From all these examples, then, we seem warranted in concluding that it is *the rate of interest* which gives to the currency *its whole purchasing power*; and which we, therefore, propose, in the next place, to consider as *the natural standard* of its value.

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* See Sections IV and V.

Section XXVI.

THE PROPOSED MODIFICATION OF THE CURRENCY STANDARD AND BASIS.

1.—THE *money*, OR *interest*, VALUE OF THE PRESENT GOLD CURRENCY PROPOSED AS THE CURRENCY STANDARD.

It is proposed to take, as the standard, the *money* value of *the present gold currency*, or its *average rate of interest;* such being, as we have shown, the measure of its true value —the sole source of its monetary power; and being, therefore, the *practical* standard of value in *the currency*, as it has been shown to be the standard of value in *property generally considered*.

The value of property—of consols, railway stocks, a farm, &c., we have seen, is measured for the purchaser by these two elements; namely, *the annual net return* of the property and *the rate of interest together;* yet *both of these*, it will be observed, are of the most *fluctuating* character. The purchaser must therefore *reduce* them, by some process, to *fixed* amounts; otherwise his calculation of advantage from the investment must be baseless. The process by which these postulates are obtained from such uncertain elements, is simply that of taking, in both cases, for a sufficient term of years, *the average* return and *the average* rate of interest together. This gives to the calculation the needful *certainty;* and *the average rate of interest* is thus ascertained *to be practically the value of money, or its purchasing power* with reference to all property; of which it is equally the *measure of value* and the *sole medium of transfer*.

Now, were the *practical* value of money so *ascertained*, and were *the currency*, by any sufficient process, *to be upheld permanently thereat;* the *value* or purchasing

power of £100 of money (and this, as has been shown, quite *irrespective of its basis*) would, upon the whole, be found to be neither greater nor less than its true value under the present system; but all other commodities, of which it constituted the measure of value, *instead of fluctuating so widely* with the present extreme variations of the rate of interest, *would then remain*, apart from the influence of relative supply and demand, *at the true average of their present value also*. The effect of this would be, therefore, to place *the merchant*, in a most essential respect, *upon a par with the capitalist* investing *in fixed property*: for the merchant who invests for a *few months* only, equally with the capitalist who so invests his money *for an indefinite term of years*, would then have *the value of money as a fixed element* of calculation also. The merchant would not then, as now—having purchased his floating stock when interest was at 3 *per cent*—*be obliged to sell, in three months* or less afterwards, at a ruinous depreciation: the consequence of *the sudden advance* of interest to 12 per cent.

2.—THE *quantity* OF CURRENCY, IN RELATION TO THE DEMAND, IS THE REGULATOR OF ITS INTEREST VALUE OR PURCHASING POWER.

The *practical* value of a currency is quite independent, as we have seen, of its currency *standard*. That standard may be gold or silver, or both; or it may be neither. The value or monetary power of a currency, of no intrinsic value whatever, may indeed be raised above the value of one consisting entirely of gold; the value being determined *not by the material*, but solely (and as is the case in regard to all commodities) by *the quantity*, in relation to *the demand* for its use. For example: Let the permanent demand be for 20 *millions* of currency and the supply be adequate thereto, at, we will suppose, 5 *per cent.* interest, and let the currency be exclusively gold; nothing, except a change, actual or

prospective, in the amount, either of the demand or else of the supply, can now alter the rate of interest from 5 per cent.; but a change in the one or in the other would necessarily involve either a higher or a lower rate. Let the domestic currency of another country be of no intrinsic value—*brass*, for example; but issued by a state whose security shall be equal to that of Great Britain; the twenty-shilling pieces being of only the same size as that of the sovereign; let the demand be still for 20 millions, but the supply be reduced to 15 millions, and every substitute prohibited; the money value of the *brass*, would be raised above that of the *gold*, currency; because the excess of the demand in relation to the supply would raise the rate of interest on the inferior one to probably 15 per cent.; which would be 200 per cent. greater practical value than that of the gold currency; and the *purchasing power* of each currency would still be in the ratio of the rate of interest.

Again, if the currency of one country were *gold* and of another *paper* exclusively, but both issued only at 5 per cent., it is evident that £100 of the paper currency would not (except by international legislation and security) effect a payment of £100 in the gold currency of the other country. But it is also evident that £100 of the paper, in the country in which it was current at 5 per cent. interest, would purchase as much as £100 of the gold medium would in either country. For example: Suppose the national securities of each country to yield a 5 per cent. dividend and to be at par, that is, £100 of the stocks to be worth £100 of the currency of each country—£100 of gold in the one and £100 of paper in the other—would then have each the same purchasing power: the gold would have no advantage over the paper. The rate of interest would maintain them of equal value; that is, would necessarily preserve the paper from depreciation, even though not based on gold; and the rate of interest being the same on each, would *cæteris*

paribus) sustain the prices of commodities on the same comparative scale in both countries.

Let the Currency Standard again be non-metallic, but a Government security, bearing a 3 per cent. annuity, and let such rate of annuity be the ascertained average interest value of our gold currency for any sufficient period of years: it is obvious that a currency, whatever might be its material substance, which should be permanently maintained of such value for use on interest, as the average interest value of our gold currency were found to be, must be practically of the same value and purchasing power as such gold currency.

Nor does the commercial value of English 3 *per cent. consols* suffer any loss, on comparison with the commercial value even of *gold* itself: for so regular has been the payment of the dividends that there is perhaps no nation of Europe which does not hold them with the same confidence as they do gold, and to a very large amount. Of their high intrinsic value, so to speak,—that is, the security of the wealth and honour of England for the due payment of the dividends,—the question is never raised. Every £100 of a national currency, therefore, which should be represented by £100 of such 3 per cent. securities, as well as issued or guaranteed by the same state, and maintained at the same interest of 3 per cent., must be equal in money value to 3 per cent. consols; and must be practically equal to gold also, if 3 per cent. were ascertained to be the average interest value of the present currency. And were such a currency to supersede the present one, the commercial effect would be, that the trader who should then contract to pay £100 for value received, would be bound to pay £100 of a currency which, although equal in money value and purchasing power to the present gold currency, would still be independent equally of the quantity and of the price of gold. Nor could anything change the money value, as before shewn, of such a currency, so as to depreciate it with reference to its

standard, but either increasing the quantity of it issued *beyond what the public choose to take at* 3 *per cent.*: from which the Bank might not only be prohibited by *law*, but effectually prevented by its *constitution*.

A currency so constituted, being *in itself of an invariable standard* value, would therefore admit of, what cannot exist under the present system, namely, *a free price for gold and silver*, regulated by, and varying only with, the *quantity* in relation to the demand: and the result would be, to put *gold and silver commercially upon the same natural footing* as any other commodity, under the great law of *supply* and *demand*:—necessarily violated under the present currency, which, as we have seen, protects by law *the price*, irrespective of *the value*, which is as the *quantity*. And, if that law be worth anything, it is difficult to conceive how, in the most important of all commodities—gold and silver—it can be now violated with impunity.

The public advantage resulting from a free price for gold and silver would be, that the fluctuation in price would regulate the quantity, and insure an adequate supply. When the quantity became temporarily reduced, a high price would replenish it under that law of commerce, that a high price for any commodity is simply a commercial premium for an increased supply, or an increased production thereof.*

The *grand* effect, however, of this emancipation, equally of commerce and of the currency, would be the absence of all necessity for the present desolating process of contracting the currency and advancing the practical value of money, or the rate of interest, whenever the quantity of gold was unavoidably and temporarily diminished. The tables would now indeed be turned: *the rate of interest*

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* See Section XXIV, illustrating the harmonious action of the Foreign Exchanges with this principle.

having become invariable, and the price of gold the only varying principle, but both being now upon their *natural basis.*

And were the currencies and the commerce of other countries to be, by a similar plan, released from their present bondage to an arbitrary and precarious quantity of coin; by substituting for *the fixed price of gold or silver,* as the standard of their respective currencies, *a fixed rate of interest,* adopting the average rate of interest on their present metallic currencies; and thereby allowing gold and silver, when reduced in stock, like any other commodity, to bear *an adequate premium, or advanced price, as the natural stimulant to an increased supply;* the harmonious action of the Foreign Exchanges, with their respective currencies, with a system of the utmost freedom of international trade, with the most natural laws of commerce, and the soundest principles of political economy, must then be a necessary and most beneficial consequence.

3.—THE PROPOSED MODE OF REGULATING THE QUANTITY OF THE CIRCULATION, AND OF SECURING A FIXED RATE OF INTEREST.

There are chiefly *four* methods in which the circulating medium of a country may be regulated or varied in quantity. First, the *arbitrary* action of a purely metallic currency, by the efflux or influx of coin, irrespective of the demand or *requirements* for its use as currency. By this method the accidental quantity of the circulating medium is made to control absolutely all the purposes for which it can be employed; and by the law of 1844 the present mixed currency, *at a certain point,* is forced into a conformity with the same arbitrary action. This principle of regulating the quantity of currency seems to be the rudest, the most capricious, most violent, and the most disastrous, which could probably have been devised, with reference to its commercial consequences.*

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* See Section VIII.

A second method which has also been proposed, is to take some fixed quantity as *the average circulation* during any past term of years, and to limit the circulating medium, whether a larger or smaller quantity be required or not, to that invariable amount. This method seems naturally inapplicable to the case of a currency, which, on some safe principle, should, under any circumstances, be limited only by the action of the public :—in other words, by *the natural demand* for a currency, governed by the extent of the field for its profitable employment, by the public. This natural demand necessarily varies considerably once or twice during every year, and must increase with the expansion of trade and population annually. It therefore, evidently, would not meet the case to invest either the Legislature, or the Government, or a National Bank, with power to regulate this grave point, unless it were possible (which it is not) at the same time to instruct them in all those secret springs of commerce, and in all the intricate revolutions of the active currency, which, unconsciously even to the public itself, regulate the demand of the public. A *fixed* amount of available currency, therefore, would never correspond with the wants of commerce ; it would *always* be in excess or deficient ; and the demand for the active circulation, after all, would govern itself, and could only be governed, by the rate of interest at which the currency would be issued, conjointly with the uses to which the currency could be profitably applied, which must, as we have seen, vary with the rate of interest.

A *fixed* amount of currency must, thus, at one time, be in excess of the active demand, when the rate of interest would *fall* in proportion. The fall of interest would, in the course of time, augment the use of, and the demand for, an increased circulation ; only to be checked, however, by the after rise of the rate of interest, and possibly by the extreme limit of the fixed currency ; which

would bring the financial system into precisely the same position as in the month of October last; when the supply of currency was absolutely stopped in the face of the public demand, admitting of no remedy but *the removal of the limits* which had been imposed by the Act of 1844.

A third method by which it has been proposed to regulate the quantity of currency is the action of *the public demand, so long as accompanied by the tender of adequate securities to the Bank of Issue* in exchange for it; but *without limitation*, by a minimum rate of interest, or by any other check.

Under such a law of supply, what would be the money value, or *the purchasing power*, of the currency, *even though it were purely gold?* Were the supply constantly *in excess* of the demand, and the demand its *only* limit; the rate of interest must, of course, fall indefinitely down to *nil:* for the public demand, with each fall of the rate of interest, would naturally augment, because the sphere for the employment of capital would become proportionately enlarged; or, the value of commodities measured in a currency which, though issued on adequate securities, was loaned without interest, would rise to treble their price in a currency which was issued at a minimum rate of 3 per cent. interest. For example: if the owner of £100 of 3 per cent. consols, on selling his stock in the market, could obtain no money in exchange for it except such as produced a return or interest which was below *one* per cent. per annum; he would require in payment at least £300 in such a currency (whether it were *gold* or paper) as the equivalent of £100 of such stock bearing him an annuity of *three* per cent. The same with regard to all fixed property.

So that, under a system of *unlimited* issues, you must either have a currency without money value, that is, one bearing *no interest at all;* or, a currency regulated by some *fixed minimum* rate of interest. The first seems, indeed,

impracticable, whilst the second would be a natural limit to the issues. But were such *minimum* and *standard* rate of interest to be fixed, as the *self-acting regulator* of the quantity of currency, it should be so fixed upon some obviously consistent principle; which may be specified as the next and the proposed method of regulating the quantity of the circulation and the rate of interest

A fourth method, then, is *to limit the amount of the circulation by the public demand* for it, *at a fixed minimum rate of interest*, to be *charged* by the Bank of Issue on its advances to, and *cancelled* on their repayment by, the receivers.

Such a principle of limitation, too, would be perfectly *equitable*, were the rate to be so fixed at the ascertained average rate of interest on the present gold currency when loaned upon specific securities of the highest class. And such a principle of limitation would be *efficient* as a *check upon any undue quantity* of currency which should ever pass into circulation, on the one hand; and as *a security* on the other, *that the circulation* should *always be adequate to the necessities of trade:* for it will be sufficiently obvious that no amount of currency whatever would issue, nor be applied for, unless on the prospect of its yielding a profit to the receiver beyond the rate of interest charged to him by the Bank of Issue; that on its ceasing to be profitably employed, that is, on its first tendency to fall below 3 per cent. outside the Bank, every portion of the currency would return to its source of issue; and that *the public demand*, being the only index to the financial necessities, the industrial activity, and the commercial prosperity of the community, is, with such a check, the most *natural*, the only *safe*, and the most *certain limit* to the active circulation.

And, further, were the Bank circulation of the country to be, for example, 30 millions and represented by 30 millions of gold in the Banks; the notes in circulation being

issued at a minimum rate of three per cent. interest, so that, on the highest class of securities, consols, for instance, when loans were advanced thereon, the interest charged to the borrowers was never *more* or *less* than three per cent.; it will be evident that so long as the Banks issued on this fixed principle only, the interest value of the currency must be fixed also; because its quantity would expand or contract only with the public demand at this fixed standard rate; and it is the quantity with reference to the demand which gives value to the currency and regulates that value. The circumstance of the banks holding *gold* for every note issued, could, therefore, impart no additional value to such a currency: for when the public demand fell off at the fixed rate, so would the quantity; not only because the issue would cease with the demand, but because if the borrowers found any difficulty in obtaining at least three per cent. outside, they would return the notes to the Bank of Issue, to cancel the interest till then current against the holder.

It will also be evident that were the bullion in the Banks to increase to *forty* millions, the circulation continuing at only *thirty* millions, regulated by a fixed standard rate of interest, as supposed; such increase could not *add* one iota to the value of the circulation; nor, on the other hand, were the bullion to be diminished to *twenty* millions, the circulation continuing to be regulated on the same fixed principle, could such decrease of bullion *take* one iota from the value of the currency. It would be equally without such an effect, were the bullion to be reduced to *ten* millions; the same if to *five* millions, and the same if reduced to *one* million, or to *nil*. No decrease of bullion could depreciate, no increase of bullion could appreciate, such a currency. It would continue to be issued only *so long* as it was *worth* a minimum rate of 3 *per cent.*; and therefore it would be impossible for any change in the quantity of bullion to affect its money value or purchasing power in any

way; and its being convertible into gold or silver or not could neither appreciate nor depreciate such a currency for any practical domestic purpose.

It is proposed, then,—

I. To ascertain the interest value of the present gold currency, taking the average rate of discount at the Bank of England in connection with the average rate of interest upon loans on the best securities, during the period between the years 1820 and 1846 inclusive; and to *fix* such *average* rate as the invariable *standard* of value in the currency, at which, with reference to a given class of securities, it is to be permanently maintained.

The *average* rate of interest during the period named will be found, we believe, to be *under three per cent.* per annum; but we may adopt that rate as sufficiently exact for the present object.

4.—THE PROPOSED MODIFICATION OF THE CURRENCY BASIS.

Let us then suppose the average interest value of the present currency to be *three per cent.**

It is proposed—

II. That the *State,* through the *agency* of the present *Issue Department* of the Bank of England, by an equitable and mutually satisfactory arrangement with that institution, obtaining thereby the

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* For progress, we at present assume 3 per cent. as being the average value of the present currency. It is besides a rate which is convenient, in a public point of view, in many respects.

If, under the proposed plan, the rate of interest paid to the Bank of Issue,—for example, by the banking department of the Bank of England, by other banks, and by bill brokers, on the circulation as issued first to these parties,—were *never below three per cent.*,; the rate charged by these again *to the public* would be *over three per cent.*; and would vary with the nature of the securities on which it was so lent by them (between 3 and 5 per cent. probably); making *an average rate of about four per cent. for public use*; which would be, if anything, *too high*, certainly *not too low*: and, certainly also *above* the *average* interest value, on similar securities, of the present gold currency.

control over an adequate proportion of the circulation (that of the Bank of England); shall so regulate the amount of the circulation as *to maintain its interest value permanently at the minimum rate of* 3 *per cent. per annum;* in virtue of and in obedience to a law to be enacted under adequate penalties; the effect of which shall be *to prohibit the issue,* except at that rate of interest only, and *to require the issue to proceed* at such times as a profitable sphere of employment, evidenced by the public demand for it, shall continue at the interest charge of 3 per cent. per annum for its use; at which rate also the interest shall cease and be cancelled on the return of the notes from circulation to the source of issue.

On this principle of regulating the aggregate circulation, as the circulation *of other Banks of Issue* (the present legal limitation of which it is proposed to continue), or, as the quantity of *gold and silver* should *increase* or *diminish* in the hands of the public; the proposed national currency would gradually be *augmented* or *diminished* in amount by the issue or return, as the case may be, of the notes into and from circulation, as they continued or not to find profitable employment at such minimum rate of 3 per cent. interest.*

Having secured the principal portion of the paper circulation by the national guarantee for its value, so that the value of every note issued from that source shall be of equal

* The amount, of course, of the average total circulation of notes, under this arrangement, would be about the same as it usually has been under the present system, when interest has been continuously at about the same rate. The so much greater amount of national securities held in this country would be ample guarantee against the possibility of parties monopolising them, so as to render their application inconvenient in the way proposed. And even supposing it to be otherwise, as the national currency would not depend upon 3 per cent. consols as its *standard*, but upon the *limitation* of itself to be issued only at a minimum rate of 3 *per cent.* interest; it must be a matter of no difficulty to substitute in part, should the necessity arise, other convenient securities, and provision might accordingly be made for it.

stability with the nation itself; it would become safe and proper, in order *to abate the heavy loss* which the country now annually sustains *in the deterioration of the coin*, that the State Bank should issue *notes of a lower denomination than* £5; and it is accordingly designed *that the issue of such notes* (except only where other Banks, under their present charters or powers, have that privilege, and during the term of such charters), *shall be exclusively the privilege of the proposed Bank of Issue;* whose notes being made *legal tender*, shall, in the hands of other Banks, serve equally as coin for the redemption of the notes of the latter.

With a view, further, to ensure certainty in *the payment of the interest* to be charged by the Bank of Issue on the use of its notes; as also to provide that the national currency in circulation shall be at all times represented, pound for pound, by an equivalent amount of securities or coin; it is proposed—

III. That the securities on which the national currency be authorised to issue, be *the deposit of* 3 *per cent. consols*, or other Government securities reduced to 3 per cents.; so as to constitute *every* £100 *of the national currency*, and *every* £100 *of the* 3 *per cent. consols*, mutually and *at all times of equal value the one to the other:* both bearing 3 per cent. return, and both being equally on the security of the State.

For the purpose, likewise, of maintaining the circulation of *coin*, equally with that of Bank notes, of the same interest value, permanently, of 3 per cent.; it is proposed—

IV. That the issue of the national currency be made also, and *at all times*, in exchange for *gold and silver coin and bullion*, at the present standard of assay, when presented for that purpose to the Bank.

The effect of which regulation would be, that whenever gold and silver should cease to produce to the owner 3 per cent. interest, they must be carried to the Bank to be exchanged for its notes; which must *always* yield at least that

return: because, whenever the latter should cease to bear such interest, they must immediately be restored to the Bank, to cancel the interest at 3 per cent. always running against the holder; and for the due payment of which the Bank would hold adequate protection in *the power to receive the quarterly dividends* on the stocks deposited.

If it now be asked, "*What,*" under the proposed modification of the currency standard and basis, "*is the meaning of a pound?*"—the answer is,—

"A *pound* is a *fixed standard* and *measure* of value, *secured by the State* to yield the owner an annual return or increase equal to the *average* increase or return of *gold*,* or 3 *per cent.* per annum; and consequently of *definite* interest or *money value* and *purchasing power.*"

As with the present basis and standard, the answer to the same question would be, that "A pound is a substance of *intrinsic* value, limited at present to be a certain quantity and fineness of gold; but of *indefinite*, because ever variable, interest or *money value* and *purchasing power.*"

The proposed modification of the basis of the issues would indeed vary little essentially from the present basis: that is, in respect of the *proportion* in which *bullion* would be held, with reference to the proportion of the public securities, to represent circulation. The difference of *mode* will be more conspicuous in the greater efficiency of *the process* by which it is proposed to maintain an equal or larger proportion of *bullion* as the basis of the issues; and the security afforded for its earlier and more certain restoration to the Bank, whenever it may be withdrawn therefrom by causes similar to those which now operate to induce a *drain* of bullion.

This important branch of the subject must next engage our attention.

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* See Section XXV.

Section XXVII.

THE NECESSITY AND PROVISION FOR A DOMESTIC STOCK OF BULLION.

1.—THE NECESSITY FOR A DOMESTIC STOCK OF BULLION.

None, we presume, will be prepared to insist upon the *absolute necessity* for a stock of *specie*, in circulation and in the Banks, of 50 to 60 *millions*, for *domestic* use merely. But, as a provision for the almost periodical recurrence, chiefly through a domestic scarcity of food, of an immense foreign balance of trade against this country, a very considerable stock becomes indispensable.

An extraordinary import of foreign breadstuffs, to the value of 20 to 30 millions sterling beyond the usual amount of our annual imports from abroad, it were absurd to suppose, could be paid for by a proportionately increased export of *British manufactures* during *the same year*, or even in *several* following years.

This immensely augmented demand for foreign breadstuffs on the part of this country, was last year the inevitable consequence of a domestic calamity. But there is, of course, no ground whatever for the supposition that, in the same moment, an *equally* sudden and imperative necessity should spring up in all foreign countries for an *equally* immense, or even a materially increased, supply of our manufactures. That such must be a natural *impossibility*, even although the inducement were offered to them of a great reduction of the prices of our goods, we have elsewhere endeavoured to show.*

Hence, then, arises the absolute necessity for a considerable domestic stock of bullion, namely, as a resource to

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* See page 59.

be employed, on the recurrence of a sudden and great emergency, in procuring for the mass of the population the necessaries of life; and which, from the total absence of every other medium during the severest pressure of the exigency, can be, in the first instance at least,* paid for in coin or bullion only. Bad as the case has proved, still, under the present system of currency, what must it have been had a similar visitation been repeated in the following season, when the stock of bullion in the Bank had already fallen below 7 *millions;* or, (which must have the same effect upon the commerce of the country) should the political excitement in Europe induce shortly a *repetition* of the drain of what is now artificially constituted *the basis* of our prosperity?

It seems scarcely to admit of a reasonable doubt that a very large domestic stock of bullion, is, in its place, equally as essential to the well-being of the country as is a domestic currency; and we may therefore proceed to consider the provision for that necessity.

2.—THE *PRESENT* PROCESS FOR MAINTAINING OR REPLENISHING THE DOMESTIC STOCK OF BULLION.

Mr. Rothschild stated, (in his examination before the Bank Committee in 1832, "that in the regular state of the commercial relations of this country with other countries, there is *a constant influx* of gold into this country."

The source and tributaries of this perennial stream of wealth, strange to say, (if we except the knowledge, as a branch of Natural History, that it springs originally from the bowels of the earth) have scarcely yet been sufficiently explored to allow of any thing like a distinct or certain notice of them in the general map, so to speak, of the commercial and political economy of the world. "The laws by which the precious metals are distributed amongst

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* See pp. 107 and 108.

the countries of the world," is a phrase which, though not of uncommon use in relation to Currency, it is to be feared, is still used frequently where the *rationale* and operation of those laws could with difficulty be expounded.

The statement of Mr. Rothschild, founded, we presume, on personal knowledge, seems to be, however, quite accordant with the nature of the case, as presented in several conspicuous circumstances.

And, first, with regard to the *source* of the *constant supply* of the precious metals, one point may, perhaps, be regarded as *certain*, namely, that gold and silver do not, (with rare exceptions), come as *donations* to the country; but *in payment of obligations due* to the several classes which compose its enterprising population: that is, they come as annuities from loans and investments, or in liquidation of debts *immediately* or *remotely* made or contracted; and as *the best* in some instances, in others *the only* medium of remittance.

Nor would it be presumptuous to conclude, that obligations of this various character, contracted at the *remoter* periods, and which have been accumulating during upwards of a century of international transactions, must far exceed the current unliquidated obligations of any single year; taking into consideration the almost countless sums which, from the pre-eminent wealth of Great Britain, have been by its capitalists from time to time embarked in various modes abroad; but particularly that constantly growing source of foreign indebtedness to England, which, as the successful result of British enterprise, is composed of those accumulations of wealth in foreign countries with which the owners, after years of commercial assiduity, are continually returning in so great numbers from all quarters of the globe, to invest and enjoy their fortunes in their native land.

For where, indeed, is that seat of commerce, conspicuous or otherwise, in any country of the world, at which British

enterprise, and British capital, and British influence do not predominate? To mention no other country, how great the amount and the number of those fortunes which have been drawn from India, by parties returning from the several Presidencies, since the date of the first charter to the Honourable East India Company of merchants!

So much may, perhaps, suffice with reference to the *regular* and *constant* influx of the precious metals to this country. But even a greater degree of mystery may be said to envelope the sources of that *special* supply which so immediately appears in the Bank of England after the prevalence of a *drain* from that institution.

The occasion of this incidental supply is systematically referred, by the most influential of modern writers on Currency, to the effect of "*contraction*" and its accompaniments. In an earlier part of this inquiry,* we took some pains to analyze closely the operation of that process: with what success we must leave to the judgment of the reader.

When the commercial houses of the country find their capital, at one fell swoop, suddenly reduced by *one-third* to *a half*, through a simple depreciation of property; which, when applied to the entire effects of the kingdom, cannot be estimated at *less* than 500 millions sterling;† and which, as we have seen, is the early result of the process of contraction; the same money panic, which at home induces *Bankers* and others to *hoard*, or to augment their previous reserve of bullion and bank notes; compels *merchants* and others, having fixed or floating property abroad, *to precipitate its sale for conversion into money:* not only *to save themselves from bankruptcy*, which is one imperative motive thereto; but in order to *replenish their now-reduced capital at home.*

This *sacrifice of British property abroad*, which is

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* See pp. 56—59.

† See Section II.

multiplied also over all foreign property, by the sudden pressure of British creditors, under the same law of necessity, upon the foreign debtor for payments which otherwise had not immediately been enforced; is one source from which the *sudden* foreign supply of coin referred to, is procured, after a domestic exigency had impelled its more copious export.

To the proof,—that, so far from being wisely regarded as a *definite remedy for the drain*, simply considered, *of so few millions of bullion;* this effect itself can be viewed only as the *most* formidable part of the commercial calamity proposed to be ameliorated,—the former portion of the present inquiry has been already and principally devoted.

Another source of the sudden supply of coin, as created by the same process of contraction, it is even more distressing to contemplate, namely, *the impoverished means of the industrious portion of the population;* as the consequence of the interruption of employment, and the exhaustion of their previous resources to almost the last penny: that *dormant* portion of the currency reserved for personal expenses, and which, in its place, we before adverted to* as constituting an aggregate sum of *many millions sterling;* but which must be the greater, of course, when employment is general and trade is prosperous, and must be distressingly reduced under the now existing reverse. It would seem to be, however, equally impossible to justify the process of contraction, on the ground of its public and *political* utility in opening this source of supply to the Bank at so great a risk to the civil institutions of the country.

A third source of the sudden reflux of coin to the Bank is, those domestic accumulations which, under the influence of the recent money panic, had been absorbed by *hoarding;* and from which, on the cessation of the panic, it

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* See page 27.

naturally returns into circulation, under the *opposite* process of an *expansion* of the power of issue in the Bank.

But here, again, the effect of *contraction*, being merely to abstract, *in order* to restore, *a given amount* of coin; is only to *create* a national calamity, which the contrary process of *expansion* must be employed to abate: an expedient, therefore, which, in this specific result also, must be regarded as equally injurious and impolitic.

It will now be necessary to refer to the process which it is proposed to substitute for the existing method of replenishing the stock of bullion.

3.—THE PROPOSED PROCESS FOR MAINTAINING OR REPLENISHING THE DOMESTIC STOCK OF BULLION.

Instead of resorting to the calamitous expedient of contraction and depreciation, with the object of replenishing the stock; it is proposed to accomplish that object by placing *bullion*, like every other commodity, under that commercial law of undisputed and general efficacy, which ensures, that when a commodity becomes deficient comparatively with the demand for its use, it will of itself, unless obstructed by legal restraints, rise in market value to a proportionate premium: which will be adequate and certain to attract the required supply from all points where it is *redundant*, or where it is of *lower* value.

Having then, in the first place, secured the currency upon *a sound and permanent basis of fixed and standard value*, and that *independently of the price of bullion*; the plan proposed for maintaining the necessary stock of the latter, will, of course, be at least *consistent and in harmony with that essential degree of commercial freedom*, which *permits* the *natural operation* of a fundamental law of commerce deemed essential to procure the requisite supply of all *other* commodities.

But as it is also an object of *public convenience*, although

in no degree *essential* as adding to its *value** or purchasing power, *to maintain the national currency*, at all times, *at par with coin;* except when, in order to induce a foreign supply of bullion during the prevalence of a drain from the Bank, it becomes necessary to allow of a proportionate *advance* of the price of the latter; it is proposed—

V. That the *Bank of Issue*, in virtue of its right as the great depository, and as, beyond all comparison, *the largest holder* of gold and silver, be invested with the office of regulating the market value of the precious metals; but in accordance only with *a scale of fixed prices*, adjusted relatively to *the quantity in the Bank*, so as to admit of *only one fixed price* for any *given aggregate stock* of coin and bullion; and so as that, when the stock shall be equal to the *average* stock which the Bank of England has held during a term of years, the price of gold shall always be, as now, £3 17s. 10½d. per ounce, and that of silver in proportion; the national currency and coin being then also *at par*: that is to say, each 100 sovereigns, each £100 of the national currency, and each £100 of 3 per cent. consols, will then be mutually of *equal* value the one to the other; and, further, so as that, on the diminution *below* such average stock of coin and bullion in the Bank, under the operation of a drain to the extent of *one, two, or three millions*, or more; the price, at each stage, shall advance *one, three, six*, or more *per cent.*, according to the scale† to be adjusted.

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* See page 168.

† In the following example of *A Fixed Scale* of *National Prices for Gold and Silver*, the present legal price of £3 17s. 10½d. per ounce of gold (with silver at a proportionate price) is adopted as the *par standard;* but, as being more convenient for calculation and every way, the scale is made to vary by a rate *per cent.* sterling, in preference to using a varying price *per ounce* of metal.

Upon this principle and by this method, it will be observed, first, that the Bank, although precluded by its

TABLE I.

So long as the aggregate stock of Gold and Silver Coin and Bullion in the proposed Bank of Issue (taking either the actual or the average stock during a week, a month, or longer, as may be preferred), shall be				*Every 100 Sovereigns of the present Standard (or Silver in proportion) shall be equivalent to*		
Over	£11,000,000	and under	£15,000,000	£100	of the National	Currency.
,,	10,000,000	,,	11 000,000	101	,,	,,
,,	9,000,000	,,	10,000,000	103	,,	,,
,,	8,000,000	,,	9,000,000	106	,,	,,
,,	7,000,000	,,	8,000,000	112	,,	,,
,,	6,000,000	,,	7,000,000	124	,,	,,
,,	5,000,000	,,	6,000,000	136	,,	,,

The above scale (commencing with a wide *par* margin) is intended to show how efficacious the *principle* can be rendered in creating a premium to any extent to induce the reflux of Coin to the Bank; and yet without depreciating the National Currency with reference to its standard of value: which is the National security for its being maintained *permanently* of the value of 3 *per cent.* per annum. (See page 171.)

But, should *the rate*, in the first Table, of advance in the value be deemed *too powerful* a stimulant of the reflux of Coin, the following Scale will present a more gradual rise of prices:—

TABLE II.

When the Stock of Coin and Bullion shall be				*Every 100 Sovereigns (or Silver in proportion) to be equivalent to*		
Over	£14,000,000	and under	£15.000,000	£100	in the National	Currency.
,,	13,000,000	,,	14.000,000	101	,,	,,
,,	12,000,000	,,	13,000,000	102	,,	,,
,,	11,000,000	,,	12,000,000	103	,,	,,
,,	10,000,000	,,	11,000,000	104	,,	,,
,,	9,000,000	,,	10,000,000	105	,,	,,
,,	8,000,000	,,	9,000,000	110	,,	,,
,,	7,000,000	,,	8,000,000	115	,,	,,
,,	6,000,000	,,	7,000,000*	120	,,	,,
,,	5,000,000	,,	6,000,000	125	,,	,,
,,	4,000,000	,,	5,000,000	130	,,	,,
,,	3,000,000	,,	4,000,000	135	,,	,,

* N.B. At about this point, in October last, of the drain of bullion, 3 per Cent. Consols had fallen to nearly the equivalent price in gold of 79 to 80.

The above Tables are founded upon the *present* proportion of coin in general circulation relatively to the total circulation of coin and notes. It being proposed, however, to authorise a National issue of notes of £1 and £2 denominations, thereby displacing a portion of the coin forming the active circulation; it would become necessary, when the amount of such displacement should be sufficiently ascertained, to *augment* proportionately thereto *the amount* of that proposed *standard or par stock* of bullion required to be held by the Bank, as the *centre* quantity constituting 100 sovereigns, £100 of currency, and £100 of 3 per Cent. Consols, of equal value, one with another: conformably with the experience of 1845, when, with a stock of 14 to 16 millions of bullion, Consols rose to their *par* of 100. The scale may be simply *reversed* to prevent a greater accumulation.

In adjusting the *standard* or *par* stock of bullion, it would be necessary merely to adopt as the principle, or as the *basis* of the proposed scale of prices, that, were *no* further issue of notes *under* £5 to be made,—the standard or par stock of bullion in the Bank with which the price of Consols has aforetime risen to, and been maintained at 100,—having been about 14 *millions;* such a stock may be equitably and safely taken as that at which Consols,—under the ordinary circumstances of the country, that is, in the absence of any depressive *political* events,—would generally rise to about *par*. But, with an issue of notes of £1 and £2, *some* portion, though not an *equivalent* portion, of coin would be released from circulation, and would return to the Bank; and, whether it were a *half, two-thirds*, or *three-fourths* of the issue of such notes, it would be proper, in order to carry out the strict principles of the proposed modification of the present system, that the addition so made from the circulation to the stock in the Bank should, for a sufficient period at least, go to *augment* the amount of the *average* stock to be adopted as the *par* or *standard* or *centre* of the proposed scale of prices. So that the prices of bullion, on falling *below* par, should only do so when the Bank's stock should exceed the par quantity by an addition, not from the domestic circulation, but from *abroad*.

This arrangement would, therefore, provide for the return to the Bank of Issue of all the coin which the £1 and £2 notes might displace from circulation; and for keeping in the country, and in a more available position, at least as much bullion as may now be distributed amongst the population: for if the par stock of bullion in the Bank, without

National character from all but *public* ends, is not invested with any *discretion* in adjusting the prices of the precious metals; but is placed under *a law which effectually constitutes the regulation of those prices a self-acting process:* the effect of the graduated scale of prices being, (whenever it is not more beneficial to the country that it should be otherwise), to maintain the national currency *at par with coin;* and at all times *to prevent unnecessary and merely specula-*

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the issue of £1 and £2 notes, be 14 millions; and if, in consequence of the issue of such notes, the stock should accumulate to 30 millions; the *latter* and not the former amount would be adopted as the *par* stock; and the price of bullion, conformably with the Table, would rise as the stock fell below 30 *millions*.

The effect of this modification of the present system doubtless, would be, to attract to the Bank the great proportion of the coin in circulation, except perhaps so much as was indispensable for *the small change:* for so great is the present inconvenience of gold payments, especially when to large amounts, through the trouble of weighing and the loss in weight, that bank notes may be said to be preferred invarlably in trade, and to a great extent also, for the same reasons, in merely personal disbursements.

Now, from the reasoning in sections XXV. and XXVI., it would follow that every £100 note of the national currency, which should be issued on the deposit of £100 of consols bearing 3 per cent. annuity, and which should be issued to such an extent only as would ensure its bearing, at all times, 3 per cent. interest; if divided into *a hundred parts*, each part of the £100 would possess, one with another, an equal money value or purchasing power, which would be one-hundreth part of the money value or purchasing power of the £100; and each part would be of such value irrespective of any other basis of such currency; consequently, were each hundredth part or *pound*, to be again divided into *twenty parts*, each of such twenty parts would also be of *equal* value and power one with another, and would possess one twentieth part of the value and power of a pound, and this, too, quite irrespective of the material substance of which each part was composed; and therefore, (that is, were there otherwise sufficient reasons for it), it would follow, that every note which should be issued of a *tower* denomination than *one pound*, as such would be, equally with the £100 note, of a certain invariable value *guaranteed* by the State;—each note, whatever sum it should represent, would be *equally* independent of *coin*, or of any intrinsic virtue, to sustain its relative *money* or purchasing power. Not that there would be either necessity or advantage, (except for the still greater economy of *waste* in the use of coin), in employing paper, even though based upon the security of the State, of a *tower* denomination than one pound. Our observation relates to the *principle* of such issues as being identical with that which secures value to the £1000 *note*; and the practice, for generations, of many foreign countries, is confirmatory of the same position.

During the period of a *drain* of bullion (which seems to occur and to prevail for a few months once in about six or seven years), when, under the proposed plan, coin would rise to a premium; there might be supposed to arise some little temporary inconvenience in the circumstance of there being then in circulation two currencies of different, though always of determinate, value. Persons who have resided abroad are aware that in many countries, paper money (and of as low a denomination as a dollar) and coin (coins of different countries and values too) permanently circulate together with comparatively little inconvenience: the PRICES of *commodities* (as would be the case under the proposed plan) being *quoted*, and the *payment* for them being *reckoned*, in the *domestic* currency of the country; and coin, when employed in part or whole, passing at another and its proper value. Just so under the proposed system: prices and payments for property would be *at all times* reckoned in the national currency; and coin,—during the brief period in which it would rise to a premium, and in the inconsiderable amounts (mostly for small change) in which it would now circulate,—would pass at its proper and *fixed* value for the time being: not (and this the material point) at an uncertain and *arbitrarily* fluctuating value; but at a value *always* fixed and published by authority: so that, just as in Canada, for example, and elsewhere, is *constantly* the case,—the variation between the paper and coin must be easily reckoned and allowed for. And further, with regard to this point, it must still be borne in mind, that the slight comparative inconvenience, if such it can be considered, to which, as a matter of *detail*, we have now referred, would exist, as before said, *only* during *a few months* in some *six or seven years:* for the proposed constitution of the currency is adapted to secure both paper and coin to be *permanently at par;* except during such brief period of the drain of bullion, when it becomes more beneficial to the country that it should be temporarily otherwise; and which period the *principle* and process by which it is now proposed to render the foreign exchanges the most efficient instrument of the *prompt restoration* of bullion when exported, are calculated materially to shorten.

tive fluctuations in its value:—all variations, indeed, except such as are useful and efficient in constituting *the Foreign Exchanges subservient to*, instead of, as now, *subversive of*, the natural and regular course of international commerce.*

And with reference to the proposed scale of prices, it will be observed, further, that it allows no scope or possibility for the Bank either *to lose* or *to gain* by the variation of price: inasmuch as *the same relative million* of bullion must invariably and inevitably be *received and paid*, or *paid and received*, at a price identically *the same*.

For example: Let the Bank stock of bullion be supposed to be at 11 *millions*, and *one million* of sovereigns to be now tendered by the public; the Bank pays out in exchange for it *one million* of its notes, the 100 sovereigns being, with that stock, equivalent to, or *at par* with, £100 of the national currency; at which, too, they would remain, until the bullion was augmented up to 15 *millions*. But suppose *a foreign drain*, like that of last year, to set in upon the Bank for bullion, the stock being at the time at 12 *millions*; the *first* million would be paid out *at par*, or in exchange for *one million* precisely of *notes*; the *second* million, at the rate of 100 sovereigns for every £101 of notes; the *third* million, at the rate of 100 sovereigns for every £103 of notes. On the other hand, again, were the drain to cease, and the *reflux* of bullion to commence at this point, that is, the bullion being then over 9 millions and under 10 millions; the *first* million of sovereigns, until the stock reached 10 millions, would be received by the Bank in exchange for its notes at the rate of £103 for every 100 sovereigns; the *second* million at £101; and the *third* million at £100, or *par*. Each million of bullion would thus bear the same price *when it entered* and *when it left* the Bank; rendering it equally *an impossibility* that the

* See Section XVIII.

Bank should either *gain* or *lose* by the variations of price: which, indeed, are *fixed* and *unchangeable*, relatively to a given quantity of the precious metals in the country.

Neither would the change in the price of *bullion* involve any change in the value or the prices of *property*.

For example: The £100 note and £100 of consols, as illustrated by the preceding Table I., are always at par *with each other*, and are each at par with *the* 100 *sovereigns*, when the stock of bullion is over 11, and under 15, millions; when the latter is reduced below 7 millions, the £100 note and £100 of consols, though still at par with *each other*, are each only equal to 76 *sovereigns*. In the same way, the prices of all *annuitant property*, for instance, being counted in the national currency, are subject to no change whatever from the change in the value of gold: for, £100 invested in a dwelling-house, paying a rental of 3 *per cent.* net, in perpetuity; and which was worth £100 of currency *when gold and the currency were at par;* is *still* worth £100 when gold has risen to 24 per cent premium. The prices of produce and merchandise being also estimated in the *national* currency, are, in the same manner, subject to no change with that of the price of gold. The *same quantity of Manchester goods*, which, when the gold and the currency were at *par*, was worth £100 currency, is still worth £100, (that is, the relative supply and demand for such goods continuing the same), when gold is at a premium of 24 per cent.

Consequently, *the foreigner who remits gold to purchase such manufactures*, during the period in which gold is at 24 per cent. premium, *makes* 24 *per cent. profit* by the purchase of our manufactures; which becomes to him the inducement to remit in bullion; or, what is the same in effect, this premium on gold induces *a demand* from the foreign buyers of goods *to purchase* a larger amount of *sterling bills* on England: because every £100 of such

bills, may, during the period of the drain of specie, be bought in the foreign market at 24 per cent. less than is possible when our currency is *at par* with gold. And *this demand*, stimulated entirely by the premium on gold, to buy up sterling bills for remittance and investment in British goods; *tends directly to adjust every foreign balance of trade against this country*, and therefore to restore the fallen exchanges, equally as the domestic currency, *to par*.

This premium on gold, again, has, of course, *the opposite* effect on *foreign exports of produce to this country;* because it creates, while it lasts, *an unfavourable exchange against the shipper:* every £100 bill which the shipper draws whilst the premium on gold is 24 per cent., for example, being worth about £24 less than £100; and this reduction is no small inducement to him *to delay either his shipments or his drafts until the drain of coin in England is replaced*. Just as, on the other hand, the 24 per cent. premium on gold is the all-powerful inducement to foreigners *to import our manufactures when we most require this*. The effect of the proposed scale of prices of bullion, seems to be therefore just what was wanted: namely, *a premium to foreigners on the purchase of our manufactures* for export; and *a proportionate discount*, as a temporary restraint, upon the quantity of general produce which otherwise would be shipped to this country; which is also the thing wanted during a drain of bullion: objects *both* of which, under the existing system, are sought to be accomplished, but *ineffectually*, as we have endeavoured to show, by an *actual, unlimited*, and *overwhelming* depreciation of all commercial and general property, both foreign and domestic.

Nor is it perhaps necessary to remark, that the effect of the proposed constitution of the currency is *not* to debar the public from obtaining *in coin*,—and, in as *much* as at any time they would be able to receive under the present sys-

tem,—the full value of all property sold. We trust this point may be well investigated and tested by any person who at first might suppose the contrary to be the case. Property must continually be convertible into *fully as much gold or silver as it could be now:* because the national currency, by its peculiar construction for that specific object, would be always (except at brief and distant intervals) *at par with coin;* and, when it should be otherwise, or, rather, when bullion should be at a *premium;* it would be so only in consequence of a temporary drain for export, occasioned by domestic famine or other uncontrollable cause; which, under the present system, does equally (we believe to a greater degree, and for a much longer period) depress the value of all property: as indeed is even now felt to be the case, and was conspicuously evidenced by the great *fall of Consols* in October last. But the difference in the effect of the proposed plan would be, that *the value of property* being measured, not in *gold*, but in *a national currency invariably of the same purchasing power and interest value, and equal to the average interest value and purchasing power of gold;* would, for all practical *domestic* purposes, be unaffected* in the smallest degree by the temporary advance of the price of bullion: which advance, indeed, would *be perceptible to the foreigner alone;* and to him *only as the motive then to make or augment his purchases from this country, and to remit for them in coin;* as well as to delay his shipments or *drafts*, as before explained.†

But what is even more important, with reference to the proposed method of emancipating the domestic stock of bullion from its present commercial disabilities; or its incapability of rising to a domestic premium for its retention or attraction at home, greater than the foreign premium which periodically drains it away; is the emancipation, at the same

* See page 174. † See page 163.

time, of the domestic *prices of property and commodities* generally, from their present bondage to a given comparatively insignificant quantity of bullion: and yet so as still to leave them based upon, and limited by, *the same gold standard* as before; or by the average interest value of the present currency, which, as we have shown,* is the only measure, practically, of its *purchasing* or *money power*.

Having, then, first secured the national currency upon a basis which admits of it; the principle by which it is proposed to maintain in the country a stock of bullion, at the least, equal to the average of the present stock; is simply to place that commodity, like all others, within the pale of the great commercial law of *supply* and *demand*;† which, superseding all necessity for the process of depreciating the national property, ensures that the stock of bullion, whenever inconveniently reduced, will be effectually and immediately replenished: provided only that its price be allowed to rise to a proportionate premium on the supply.

Such also is the *efficient* principle upon which the proposed plan provides for the *permanent convertibility* of paper into coin.‖ It appears to us also, on every consideration, to be the *natural* principle; and,—from the *experience* of the country before and under the Bank Charter Act of 1844,—the *only* principle which *tends* to that object: for, to say nothing of the inconvenience to which the public has been put by the *attempt*, it is not too much to affirm§ that "convertibility," under the present system, is no more secured at this date, than it was in the year 1797: supposing the possibility that similar political events to those of that period should again transpire.

* See pp. 172 and 176. † See page 65. § See pp. 115—117.
‖ See Section XXIII.

Section XXVIII.

THE CONSTITUTION AND MANAGEMENT OF THE PROPOSED BANK OF ISSUE.

For the purpose of carrying out efficiently the proper objects of a National Currency, as distinct from the promiscuous objects comprehended under the several departments of the present Board of Trade; it is proposed—

V. That a *Board of Currency* be constituted, with a President, Vice-President, and Secretary; to consist of the *First Lord of the Treasury*, the *Chancellor of the Exchequer*, and the *President of the Board of Trade, ex-officio;* with *six* additional Commissioners, being members of the House of Commons; *two* of them (if possible) to have been *Bankers; four* to have been *Merchants* or *Manufacturers;* and of the latter four, two at least to have been resident in, or commercially connected with, one or more of the *British Colonies.*

The powers of the Board to be limited to the performance of specific duties, to be defined by law; and the appointment of the Commissioners, subject to specific regulations, to be vested in the Crown.

For defining the *province* of the Board of Currency, it is proposed—

VI. That the duties and powers of the Board of Currency be restricted by law, to be—

1. As the Executive of the proposed Bank of Issue,—to carry into operation all the objects contemplated thereby, conformably with the laws of its constitution; to enforce the penalties in cases of infraction of the laws by any subordinate officers; to superintend the transactions, promote

efficiency in all the departments, and audit all the accounts of the Bank.

2. As the medium through which, with the consent and co-operation of the respective Colonial Legislatures, the advantages of a secure, equable, and adequate National Currency may be extended to all the dependancies of Great Britain.

To protect more effectually the National Bank against its supposed greater liability, compared with that of a private Bank of Issue, to *forgeries* of its notes; and, at the same time, to secure the greater public advantage of a *National*, compared with a private, institution; it is proposed—

VII. That, on the termination of the present Bank Charter,—or *immediately* on arranging for that object satisfactorily to the Bank of England and to the country,—the present *Issue* Department of the Bank of England *be transferred* to the jurisdiction of the proposed Board of Currency; which is to appoint *sub-commissioners*, duly qualified, to conduct,—with the subordinate *agency* and *within the precincts*, as now, of the present Bank of England and its several branches,—the Issue of the National Currency: for the charges of which agency provision is to be made in the proposed compensation to the Bank.

And in order (for the object specified of the greater security against forgeries) that the issue of notes may be managed practically by the Bank of England, *just as now*, but still subordinately to, and as the *agent* of, the State; and yet so as effectually to constitute the currency so issued to be *a National Currency*, and the Bank of Issue a *National Bank;* it is proposed—

VIII. That the functions of the *Sub-commissioners* of management in the Bank of Issue, be—

1. To represent the authority of the State

therein; and in that capacity to be invested with the sole power of *giving currency* to the notes, by affixing to such notes the warrant of a National *stamp* or *mark*.

2. To keep,—through their accountants,—a *counter* record, or check account (distinct entirely from that kept by the Bank of England as *agent*), of all notes issued for, and returned from, circulation, for either consols or coin; and whether to and from the *Banking* department of the Bank of England or any other party.*

3. To notify the public, through the *London Gazette*, constantly, of the prices,—conformably with the proposed scale of variations in the stock,—at which the Bank is receiving and paying out bullion.

With a view also to preclude all possibility that the proposed National Bank of Issue should in any degree interfere with the *general* business of bankers; and to confine it exclusively to the simple *issue of a National Currency*, under fixed laws; it is proposed—

IX. That the Bank of Issue be prohibited from

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* The course of business with the Bank of Issue would then be much as follows:—The Banking department of the present Bank of England would lodge with the Bank of Issue 3 per cent. consols, or its Dead Weight reduced to 3 per cent. value; and would receive in exchange for every £100 thereof, £100 of the National Currency, to be employed in its usual Banking business. The Banking department, as it now does, would thus, through its various channels, continue to *distribute* through the country the principal circulation.

As the National Currency again should return, in *deposits*, to the Banking department of the Bank of England, directly; or, indirectly, to that Bank from other Banks receiving such deposits; or as the National Currency, in any other mode, should increase in the Banks beyond any sum that might find profitable employment by the public, at something *over* 3 per cent.; the *surplus* would return from the other Banks to the Banking department of the Bank of England, with which the former are in the habit of keeping an account; and, from the latter institution, the surplus would be carried into the National Bank of Issue; whereupon the equivalent amount of consols would be returned, and the interest, till then running on the notes, would be thereby cancelled.

Thus the number of open accounts which the National Bank would require to keep in its books would be comparatively small; and its transactions with the public at large, would be chiefly confined to the *exchange of its notes for coin*, or, of *coin for its notes, at the market price*.

keeping any *Discount* or *Drawing* account for *the Government*, or for *any other party*; and from all other business whatsoever, except *the issue* and *redemption* of the National Currency, conformably with the constitution of the latter; but that the account of the Government, and the management of the Public Debt, on a satisfactory arrangement, be managed, as heretofore, by the present *Banking* department of the Bank of England.

In order further to provide for the permanent value of the National Currency under all *supposable* contingencies; it is proposed—

X. That the National Bank of Issue be constituted so entirely distinct in all its functions and responsibilities from those of the Banking department of the Bank of England; as that the possible event of any reverse in the condition of the latter shall in no way affect the position or interrupt the duties of the former;—but that the Bank of Issue, in its whole constitution and responsibility, continuing all the while a *State* institution, the National Currency shall, under all circumstances, be preserved incapable of depreciation in value, or of arbitrary diminution in quantity.

For the purpose of presenting to the Bank of England, and to other Banks of Issue, an adequate inducement to promote the object of a *final settlement of the currency* upon a sound and permanent basis, by the establishment of a National Currency; it is proposed—

XI. That the Bank of England, in addition to the annual sum payable under certain Acts for the management by the Bank, of the Public Debt, be allowed another annual sum (to be satisfactorily arranged between the Bank and the country); as an equitable compensation for the transfer of its

present privileges of Issuing notes, until the expiration of the current charter; the sum to include also an allowance for the *expenses* and *sub-management* of the issues under the proposed plan; and further, that all other Banks in the United Kingdom which may transfer their present privileges of issuing notes to the Board of Currency, be allowed for the period until the expiration of their respective charters a mutually satisfactory compensation also.

The produce of the 3 per cent. charge,* by the Bank of

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* With regard to the probable *produce* of this charge, it will be useful, in the first place, to revert to the *present* state of the account between the country and the Bank of England; which cannot better be done than in the following language of Sir Robert Peel, on the introduction of the present Bank Charter Act:—

"The Bank is to retain the privilege of issuing notes on securities to the amount of £14,000,000. On an interest of 3 per cent., the gross gains of the Bank upon this total of issue would be £420,000."

"The total cost to the Bank, on an issue of £20,000,000, has been estimated (by the committee of 1833) at £117,000, but I am inclined to estimate it at about £113,000; which, taken from £420,000, leaves £303,000. There is then to be deducted about £60,000, composition with the Stamp-office, for the privilege of issuing notes. There is also about £24,000 paid by the Bank to those bankers who undertake to issue Bank of England notes, receiving a commission of 1 per cent. The result is, after subtracting these items, that there would be a net profit of £220,000 derived from the issuing of notes."

"Hitherto the Bank of England has been accustomed to pay to the Government a sum of £120,000 (for the continuance of its privileges under the Charter). I now propose that the Bank should, in addition to that sum, pay once for all £60,000, being the amount of fixed annual composition for the issue of its notes, which will bring the entire amount to a sum of £180,000, to be paid annually by the Bank. The net profit of the Bank, to be derived from the issue of notes, will not probably exceed the sum of £100,000. The public have to pay the Bank an annual sum of £248,000, under the provisions of certain Acts of Parliament, on account of the management, by the Bank, of the Public Debt. From the payment of £248,000, will hereafter have to be deducted £180,000; leaving the total payment of the public to the Bank, on the balance of the two accounts, a sum of £68,000."—*Hansard, 6th May*, 1844.

From this very clear statement of the account between the Bank and the country, it will be apparent that, for the transfer of its present privileges of issuing notes, the *future* payment to the Bank,—without the deduction of £180,000 now paid by the Bank for those privileges,—of £348,000 annually for its profits and for the management of the Public Debt, would leave the Bank in possession of precisely the same amount of net income as it now derives from issuing notes. To this annual sum of £348,000 must be added the allowance to be made to other Banks, which may relinquish their present privileges of issuing notes, and the *cost* or *expenses* of the issue of the national currency (after a more particular *analysis* of that item); which we may take, together, at the sum of £152,000; making the total annual sum of £500,000 for those great objects.

From this amount, however, in order to leave the *country* also in precisely the same position as now, the annual sum of £68,000 would be due from the Consolidated Fund to the National Bank of Issue; which would probably be adequate to

Issue, for interest upon its notes in circulation would, of course, be a considerable annual amount. And as it would be desirable that the amount should be applied exclusively,

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the payment of all the *direct* expenses of the proposed Board of Currency and National Bank, including the allowance to the Bank of England for its sub-management, and for accommodation to the sub-commissioners and their accountants.

The *Expenditure* may thus be taken at £500,000 in all.

As an estimate of the *Revenue* of the Bank of Issne:—

Were we to take the present *average* circulation of the Bank of England at 20 *millions*, and the Reserve—which, under the proposed plan, it might be thonght necessary for the Banking department to hold—at 7 *millions;* and to suppose that 3 *millions* more might pass into employment and remain in circulation, as the consequence of an established pnblic confidence in a settled *supply* and *value* of money: 30 *millions* would be the total of these issues, through the Banking department chiefly of the Bank of England.

Were we also to assume the present *average* circulation of the Private and Joint Stock Banks in England, Scotlaud, and Ireland to be 20 *millions;* and that the Banks representing, say 10 *millions* of that sum, found it advantageous to accept of the terms offered by the proposed Board of Curreucy for the transfer of the privileges of Issuing snch an additional amonnt of notes; the Issues of the National Bank would thus be augmented to 40 *millions*.

This sum is of course independent of the amount to which the circulation would be further increased by the additional issue of notes *under* £5; and which we may suppose to amount to £15,000,000, their amount having, 30 years ago, been over £9,000,000: thus making the *total* Issues £55,000,000. But, as for the notes under £5 we have provided that, in the first instance, at least, there shall remain in the Bank an *equivalent* amount of *Coin*, this portion of the Issues would, for the time, be unproductive of interest to the Bank. Bnt supposing that eventnally (and which probably might be the case) it should be deemed expedient to adopt as the *par stock* of bullion (before explained), *that amount* which, on the average of a sufficient term of years (5 or 10 years, for example), should be found to be *one-half* or *two-thirds* of the average *circulation* of the National Bank during the same term of years; we should then, were such *par* stock of bullion to be fixed at *one-half* of the *total* Issue of notes. have to dednct from the productive circulation the sum of £27,500,000, as representing the average stock of *Coin* unproductively retained by the Bank; and we should have the sum of £27,500,000 also as the average *productive* circulation, yielding, at 3 per cent., the *gross* revenue of £825,000 per annum.

From this gross revenue there would then have to be deducted the expeuditure, before mentioned, of £500,000; leaving, on these estimates, a net *surplus* revenue of £325,000 per annum: the only use of which we should at present propose to make would be, to regard it as adequate security to the country against *loss*.

But it would cease to be absolutely necessary, under the proposed plan, for the Bank of England to keep any larger *Reserve* than was necessary previonsly to 1844: because it would be at all times in the power of that institution, as it would be also in the power of all other Bankers who chose to hold Consols (productive all the while) for the purpose, to procure from the National Bank such further Issues as their Banking business might require.

The effect would, therefore, be to *release* a very large amount of coin and notes now unproductively held as the *Reserve*, by the Banking community; because *Consols*, always bearing the *dividend*, would be held in their stead.

To the *Bank of England* the *saving*, on an average Reserve, since 1844, of about £7,000,000, would be, at 3 per cent., £210,000 per annum; and the Issues bearing interest to the National Bank would, in consequence, be reduced by the sum of £7,000,000: thereby making the total £48,000,000.

But if the sum of £210,000 were saved to the Bank of England, in conseqnence of the proposed national plan, it would be fair to place that amount against the annual sum of £248,000, due by the country to the Bank for the management of the Public Debt. So that the net revenue of the National Bank would still be undiminished by this difference. And not only so: for, although the productive

as far as that may be practicable, to promote the useful extension and greater efficiency of the proposed national system of Currency; and that the said amount be in no wise regarded as merely subservient to, or as a branch of, the public Revenue; it is proposed—

XII. That the produce of the 3 per cent. income of the Bank of Issue derived from the interest upon its notes in circulation, be applied—

1. To the payment of the annual sum which may be awarded to the Bank of England for the *transfer*, to the Board of Currency, *of its* present *privileges of Issuing Notes;* for the future *management of the Public Debt, by that institution;* and for its *agency* and *expenses* in the proposed sub-management of the National Currency; to include a charge for the accommodation to be provided for the Sub-Commissioners of the Board of Currency and their accountants, within

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circulation would now be only £24,000,000, and the gross revenue, at 3 per cent., only £720,000; the Bank of Issue would even be a gainer to the extent of £105,000; as the account, then, would stand thus:—

Gross Revenue:—		
Interest of £24,000,000 of Issues, on Consols, at 3 per cent. per annum	£720,000	
Payment from Consolidated Fund, in lieu of to the Bank of England	68,000	
		£788,000
Expenditure:—		
Compensation to the Bank of England (for the 10 years from the date of the current charter) for its present profits derived from Issues	£100,000	
Cost of Issues, and compensation to other Banks, say..	152,000	
Direct expenses of the Board of Currency and the Sub-Commissioners, and of the sub-agency of the Bank of England	68,000	
*Management of the Public Debt by the Bank of England, as now payable	£248,000	
Less interest saved on amount of the Reserve..	210,000	
	38,000	
		358,000
Augmenting the net surplus from £325,000, as before, to		£430,000

A sum which would leave an ample margin for large deductions, supposing the other items of revenue to be over, or of expenditure to be under, estimated.

* This item, of course, is properly not connected with the subject at all.

the buildings of the present Bank of England and its branches.

2. To the payment of the compensation to be allowed to other Banks, which may agree to transfer to the Board of Currency their present privileges of Issuing Notes.

3. To the payment of the salaries and incidental expenses of the proposed Board of Currency and Issue Department.

4. To the maintenance of a *National Fund* out of the accumulation of any annual *surplus* of revenue, beyond the amount of the foregoing deductions; and which accumulations are to be *invested* on account of the Bank; the interest to be applied, under direction of the Board of Currency and with the sanction of Parliament, to the exclusive object of promoting the greatest amount of efficiency in the proposed system of National Banks of Issue, the extension of the benefits of Savings Banks, and the promotion of Banks for the encouragement of industry, in necessitous districts throughout the United Kingdom and its several Colonies.

Such, then, is an outline of the mode in which it is proposed to embody, in a practical form, the principles of Currency which the preceding inquiry and argument had appeared to elicit and to establish.

To the *constitution* of the proposed Bank exception may, perhaps, be taken by some, on the ground that the profits of the institution would be augmented by making it *independent* altogether of the Bank of England; and by imposing on the former the management of the *Public Debt* and of the *Government account*, in addition to the simple duty of issuing the national currency.

This supposed gain to the country would appear, however, to be highly questionable: for, to say nothing of the greater liability to forgery before mentioned, there is to be considered the liability to many forms of *abuse*, by placing an institution of such a nature and of so much power in the hands of the Government of the day; the destruction of the simplicity of the management of the institution as a Bank of Issue exclusively; the loss of the mutual counter-check between itself and the Bank of England; the uncertainty, after all, of its being more *economically*, and the certainty almost of its being less *efficiently*, conducted, with reference to the grand object of its constitution.

The proposed plan, it will be observed, in no way intrudes upon the Banking business either of the Bank of England or of the Banks generally: it leaves matters, except as respects the mere *Issue* of the Currency, totally undisturbed. The same may be said respecting the management of the Public Revenue and the National Debt; the present convenience of any of the parties interested is in no way disturbed; neither does the plan in the smallest degree entrench upon the business privileges of the Banks generally. It is true that it contemplates, eventually, a uniform National Currency as the present charters of such Issuing Banks expire; but even this forms no *essential* element. In fact, the *transition* from the present to the proposed system might be effected *insensibly* in every way, except as securing a *public* benefit.

Section XXIX.

THE EFFECT OF THE PROPOSED MODIFICATIONS OF THE CURRENCY LAWS *GENERALLY* CONSIDERED.

By way of recapitulation and retrospect, it may now be proper to observe that an improvement of the laws which should secure at once both a fixed standard to the *currency*, as high in practical value as the present gold standard; and a fixed standard and measure of value also for *property generally*,* is really the great *desideratum* of our present commercial system. But besides the security for that result in the simple constitution of the plan proposed, the amount of the circulation too, it will be observed, is made *to regulate itself* by the rate of interest,† so as to leave no scope whatever for the exercise of *discretion* or *indiscretion* on the part of the Bank; whilst the prices of gold and silver are regulated on the great commercial principle of supply and demand alone,‡ in a manner, too, incapable of abuse, and best adapted to secure the public convenience.

1.—THE EFFECT,—AS OBVIATING THE PRESENT ARBITRARY CHANGES IN THE VALUE OF PROPERTY.

By the arrangement proposed, it may be said, the whole object aimed at, under the present laws, by the process of an arbitrary and real *depreciation* of British *property;* is as effectually accomplished by a simple *appreciation*—beneficial to the foreigner, as designed, but harmless at the same time to ourselves—of the foreigner's *gold*. For it will not be disputed, that to the foreign buyer of British goods, the advantage is equal—(the principle being adopted under the present laws, that such an inducement to augment their

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* See Section XXVI. † See page 184. ‡ See page 195.

purchases from us should be afforded to foreign countries)—whether you *reduce* temporarily the British *price of goods* by 20 per cent.; or temporarily *augment*, by 20 per cent., the *purchasing power* of the foreigner's money.* But to the *seller* of the goods, while the appreciation of the foreigner's gold is to him *nominal* only; the arbitrary reduction by 20 per cent. of the market, and often the *cost*, price of the goods, would not be nominal, but *real* and *overwhelming*. There would also be this further result of the proposed mode of affording the foreigner this temporary advantage; that, whereas the advantage by the existing process, at the time it ought to be the most useful, is almost entirely counteracted through the high rate of discount, the destruction of commercial confidence, and the difficulty of negociating the usual foreign credits; there is, under the modification proposed, no derangement whatever of the regular course, either of the money market, or of the markets and prices for commercial property.

Thus, also, a coincident result would be, the harmonious co-operation of the proposed plan, in all its details, with the principles of Free Trade,—already partially, and soon, it would seem, to be completely, identified with our commercial legislation,—and, in manner as detailed, with the *Foreign Exchanges;* which, under an expansion of the same principles so as to include *bullion*, and allow gold and silver to find their legitimate market value, must always *rectify themselves*.

In this way, also, the common action of the Foreign Exchanges, in conjunction with a currency constituted as proposed, must, in the most natural way, become the instrument of promptly remedying a drain of bullion, in whatever cause it might originate; of restoring coin as rapidly to its *par* value in the domestic currency; and, by

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* See page 200.

placing all *foreign hoards* of specie under the control of the graduated *scale of prices*, enfranchise the national commerce and industry from their present perilous thraldom to every foreign, and it may be adverse, power; which, as a holder of our public securities, may at any time abstract the golden but illusory basis of our whole domestic prosperity.

2.—THE EFFECT,—AS INFLUENCED BY THE ORDINARY RECURRENCE OF COMMERCIAL OR POLITICAL EVENTS.

But the grand result to be considered is, perhaps, the *stability* imparted to the currency by the efficiency of its whole constitution. This would appear to render it *proof* against the shock alike of commercial and political changes, and against the ordinary consequences either of a great import, or an equal export, of bullion. For, let there now be from any cause an *influx* of bullion to the greatest known extent, its power to stimulate wild speculation is quite denuded: for, with such *increase* of coin, the national currency must *contract* to that point which is necessary to maintain *both* currencies (coin and paper) of the same interest value of 3 per cent. per annum.

Or, let there be now an *efflux* of bullion to the greatest known extent; so as that, for example, consols, as in October last, shall be worth no more in the stock market than 79 sovereigns for every £100 of such stock; the usual effect of an export of bullion to create a money panic, depreciate property, and suspend employment and trade, is neutralized also: for, with the *decrease* of coin, the national currency now *expands*, but to that point only which is necessary to prevent the rate of interest from advancing *beyond* 3 per cent. per annum. £100 of 3 per cent consols is still, therefore, worth £100 of the 3 per cent. national currency; and other property which, before such export of bullion, was valued in the national currency, being still valued in that currency and not in gold; is, like consols, subject to no depre-

ciation: because money being still in adequate supply, the customary investment of capital, the employment of the population, and the means of consuming all productions, are each and all uninterrupted. And £100 of consols, or £100 value of other property can still be converted too into 79 *sovereigns;* or as much *coin* as they commanded in October last, or during any former period of so large an export of bullion. But, what may be deemed even more important, is, that those £100 values of general property are *always convertible* into the £100 of currency of the same purchasing power and value, as much so *during*, as they were *before*, the export of bullion; whilst the £100 of *currency* is itself also *always convertible* at the national bank into as much *gold or silver* as the varying stock of bullion in the country determines fairly both it, and every £100 value of general property to be worth in *coin*.

And with regard to the stability of the proposed currency in the prospect or the progress of a foreign *war*, it may be observed, that under the present system the apprehension of war naturally and immediately produces an artificial scarcity, and raises the value, of money: because it is the prospect of an indefinite addition to the *demand*, for loans to support the increased public expenditure; or else it is the prospect of an eventually diminished *supply* of money, as the consequence of an attendant foreign drain of bullion. But, under the proposed system, the *first* cause of an advance in the value of money is obviated by the provision for *a continued increase* in the supply, as the rate of interest shall from any cause tend to rise *above* 3 per cent.; and the *second* cause is also obviated by the arrangement which *admits* of the requisite supply of currency, at all times, *independently* of the stock of bullion.

The *prospect even of war*, therefore, cannot, as now, wield an adverse control over the money market: nor, further, can the Public Funds be depreciated by the apprehen-

sion, or the reality, of *war*, so long as *the dividends continue certain of payment*: the rate of annuity being, as shewn, the measure of their value. And should even that (we hope *impossible*) condition of public affairs ever be realized, in which, either from the failure of the Revenue, or as the consequence of civil revolution itself, the dividends should *cease* to be regularly paid, and the value of Consols should fall through such a cause; still, even that circumstance, and all those circumstances combined, would appear to be *powerless* to affect the *stability* and *value* of such a currency: so long as it continued,—conformably to the laws of its constitution and management,*—to be issued *only at three per cent. interest;* which is its *self-sustained* security and standard of *value*, equally to itself and to property generally.

3.—THE EFFECT,—AS LAYING A SOLID AND PERMANENT BASIS FOR INDUSTRIAL AND COMMERCIAL ENTERPRISE.

A fair field and basis for such enterprise is necessarily so secured: because the calculations of men of business, with a currency permanently adequate and undepreciable, would proceed on the intelligible principle of *Supply and Demand alone;* no longer liable to embarrassing perplexity through a sudden reverse in the prospects and condition of the money market, which, under the present system, renders commerce little else than a mere game of chance.†

There must ensue a *safe*, *regular*, and *profitable* application of capital to all useful improvements of property, with an enlargement of the demand for labour, and, consequently, of the means, and of the actual consumption or use of all articles of produce, manufacture, or import; instead of a *fitful*, *baseless*, and *ruinous* application of capital, both as to its uncertain stimulus and more arbitrary destruction, now governed absolutely by a *fortuitous*, *ever-varying*, and *inconsiderable* quantity of bullion.‡

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* See page 186. † See pp. 71 and 72. ‡ See page 61.

4.—THE EFFECT,—AS ABATING THE PRINCIPAL INCENTIVE TO COMMERCIAL AND GENERAL SPECULATION.

In the department of this inquiry devoted particularly to this topic,* as well as in our occasional allusions to it, we have endeavoured to treat the subject exclusively as a question of political economy, and with reference to the best mode, in a public point of view, of dealing with it legislatively. We must hope, therefore, that a fair judgment of the several positions advanced, when viewed collectively and in their aggregate influence upon the welfare of the body-politic, will acquit us of all intention of being, in any way, apologists of the past, or promoters of any future speculations. But, after a full admission of the temerity, the culpability, and the considerable amount of what may properly be designated either imprudent or reckless speculations, the question still returns,—"What is the proper mode of dealing with the subject *legislatively?* Can any process be substituted as an improvement upon a system which irresistibly *generates* speculation, in order only to render it the more certainly and more widely *destructive* to the country?" Had the present laws placed a wholesome restraint upon enterprise of every kind, the case would, indeed, have been different. But it is not so; nor is it, perhaps, within the province of the law, any more than it would be consistent with the doctrines of Free Trade, to interfere for such an object: because the sphere of enterprise can be limited only by that which can arrest its *motive;* which is the *prospect* of profit. And the law would, therefore, have, first of all, to *decide for the public* between what was *really* profitable and what was only *apparently* so: an order of commercial legislation which, if tolerated at all, must necessarily soon wear itself out; and, legitimately construed, might entitle the

* See Section XII.

sufferers from enterprise which the legislature had promoted, but could not render profitable, to claims upon the State for special damages.

Besides, the law can interfere, *directly*, only by *interdicting* certain investments or certain pursuits of industry: which is simply to *raise the value* of the similar kinds of property already in existence. As if, for example, the Legislature, in 1844, after a certain number had been sanctioned, had prohibited the further construction of *railways;* the commercial effect must only have been the legal protection of *monopoly* in the Companies authorised, and their proportionately advanced value. Or, the law must interfere *indirectly;* by destroying the *motive,* or that *prospect of profit** in which the undertaking had originated; and this it effectually does, by merely raising the value of money so as to render the further prosecution of, and the past outlay upon, the works next to a *total loss* of the capital invested. But, as this destruction of such anticipated profit, which is the sole motive to all industry, is at the same time not confined to the *particular* enterprises it might be intended to restrain; but arrests, if not in *a greater degree*, that *general* industry which is essential to the subsistence of the industrial population; such authoritative interference with the natural course of things would seem only to place the Legislature in the inconsistent attitude of counteracting, by *one* class of laws, everything which the entire commercial and civil code, indeed, the constitution itself had been, but upon other princples, designed to secure.

Admitting, then, in its fullest extent, the existence of what, under the proper designation of *over-trading*, has ever veiled the much *deeper* origin of a *money panic;* if that excessive *cheapness* of money, which the present state of the law *promotes* at one time, and that excessive *dearness* of

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* See pp. 1—4.

money which it enforces at another; be respectively the natural occasion, first, of too expanded enterprise, and then of its most disastrous overthrow; the authors of such laws may justly heap unmeasured condemnation upon the various forms and agents of over-trading, and yet be unable to exculpate the law itself from the charge of *particeps criminis*.

Precisely as when an individual who, from the lowest ranks of life, may be transported for *insurrection* or for *felony*, is practically regarded by himself and by the public as the sole occasion of such crime and penalty; and yet, as a branch of political economy, it may still remain perfectly true, that in so far as idleness is the parent of crime, and hunger of discontent, and the general absence and want of employment was the cause of both; it would become imperative upon the *Legislature*, even while punishing the overt offender, still to direct its best and most serious attention to such provision, as may be within the province of the law, for the more adequate employment of the population. As it would be equally true, without at all denying the guilt of the rebel or the felon, that the Legislature which should supinely neglect its duty in that respect, would neither be guiltless nor irresponsible; and that it neither could nor would escape that *penalty* which menaces the whole foundations of the law and constitution of a country; when the mass of the people is in a state of suffering,—not from the absence of some *ideal* form of perfect Government; but from positive *hunger* and *destitution*,—the consequences of a failure of the usual *employment* and *means of subsistence*.

Let us not, however, be supposed to hold out the prospect, or to entertain the idea of "for ever putting an end," either by the proposed, or by any other plan, to all dangerous speculations; and to those consequences which *properly* belong to them, as distinct from their manifold aggravations through a coincident condition of the money market. Such, indeed, by some singularly abstract process of calculation,

appears almost to have been the anticipation, if not the promised result, of the last *Bank Charter Act*, on its first introduction to the public.

But what we may certainly count upon, as the *necessary* consequence of *principles*, explained in the course of these observations, is the rendering such commercial calamities of impossible occurrence in that degree in which they, first, are *generated* by the too great, because precarious *cheapness;* and, then, at their maturity, are rendered many times more pernicious by the sudden *dearness*, of money. And this we have endeavoured to shew,* from the nature and relation of the things themselves, with whatever other circumstances it may be connected, must be the cause of, by far, the *greater proportion* of the mischief to be remedied.

One certain effect of a *settled* value of money, provided for in the proposed plan, must be *the extinguishment of so much of the spirit and practice of speculation* as may be considered to spring from the *daily changes* in the prospects of the money market:—changes influenced and originated chiefly through the Stock Exchange, by means of illusory rumours, alarming or promising as the case may require; but the whole effect of which, by presenting the contingency of an increased demand for, or a diminished supply and fluctuating value of, money, is speculatively to *elevate* or *depress* the prices of Stocks and other property.

In this point of view, the daily Stock Market, even for the Public securities, may perhaps, without any great breach of candour, be designated, in its practical influence upon commercial pursuits, the great national *nursery* and seat of the evil genius of speculation.

But, by means of an *unvarying* value of 3 *per cents.*† under all circumstances, (not excepting the supposable addition to their amount,) which must result from their being rendered

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* See page 113. † See pp. 21, 172, and 179.

of *identical* value with a 3 *per cent.* currency; those transactions in the public stocks which may be regarded as merely speculative in their character, must, under the proposed system, give place to such transactions only as are either for the temporary convenience of bankers and others, or for the permanent investment of capital.

5. THE EFFECT,—AS INFLUENCED BY THE SUPPOSED RECURRENCE OF A SPECULATIVE MANIA.

We have already considered the effect of a fluctuating value of money to produce, alternately, a *mania* of *speculation*, and a *money-panic*. We have now briefly to consider the former as deprived of its present origin,—the fall of money to a value at which it cannot be maintained; and as, therefore, separated from its ordinary effect,—a money-panic.*

Not that, with the proposed settlement of the value of money at a permanently moderate rate of interest, a proportionate stimulus would not be imparted to general enterprise: but the contrary. We have shewn such to be its natural and *required* result.† It is equally essential and designed, as being the *only* channel, whether through the agency of the proposed or of the existing plan, commercial prosperity can return. And *whenever* public confidence shall be *established* under the *present*, as under any other, system, in the *probability* only of a permanent abundance of money; when political events shall cease to menace war, or the *weather* shall cease, for the year at least, to threaten the crops: not till then, but then *certainly*, will general prosperity reflow. But how long the dreary interval, who can tell?

The great difference in the operation of the proposed, compared with the existing plan is, that the range and

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* See page 62.

† See Section XXI.

extent, relatively to the value of money, of the enterprise of the country, and the degree of the speculative excitement inseparably incident to it, would be *limited:* not by a fixed *supply*, but by a fixed *value*, of money; and by the certainty also, *without* a fixed supply, that no *excessive* quantity of money at any time could, as it does under the present system, *urgently press* upon the public for employment; because the constitution of the currency itself insures, that all sums of money which do not produce the owner at least 3 per cent., must *return* to the Bank of Issue.

But even supposing, under the proposed modification, the case of the recurrence of a *mania* of speculation, similar in character and magnitude to those of 1844 or 1826: It still could have no power over the *quantity* or *value* of money, on the one hand; while, on the other, the *settled* value of money must materially modify the character and effects of such speculation. Consols, for example, which continued to return three per cent., could not fall below *par;* neither could the value of other fixed property, which continued to yield the usual return, be at all affected.

The possible but modified failure of such excessive enterprise would be felt by the immediate sufferers in that branch of trade to which it belonged; and in that particular description of produce or property which had been depreciated by a temporary over-supply; which would then become the *sole* cause and *measure* of the loss sustained; but such casualties would lose their present power to depreciate, by any antagonistic and unseasonable, but uncontrollable action of the money market, the *total* property, fixed and floating, of the kingdom:* which is the more fearful calamity, and which, indeed, could apparently result from no other cause than such suddenly adverse monetary action.

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* See page 13 at foot.

So that, even anticipating the return (morally *certain* under the present system) of a speculative mania in its worst form; its first and simple consequence, commercially, as we have seen, is to *advance* the *price*, and proportionately to *augment* the *supply*, of the commodity to which it relates.*

It can have no other *commercial* effect than this, whether it relate to a speculation which augments the supply of *produce*, or a mania which multiplies the number of *railways:* and the consequence of such an increased *supply* is a proportionately *reduced price*.

But then, again, the modified effect of the proposed, compared with the present system is, that, whilst the latter seems to render such temporary over-supply *ncessarily* a source of ruin, not merely to the speculators and projectors (whose individual losses also fall upon the public), but subjects to similar calamities every other interest;† the proposed plan turns this increased supply to the public *advantage*, by securing to them, uninterruptedly, the *means of enjoying it* upon a lower scale of prices; and reducing, by the same means, the amount of loss to the *producers* or *importers*, by preventing that *unnecessary* extent of depreciation which does not *naturally* result from an abundant *supply;* but, *unnaturally*, from a greater proportionate contraction of the usual *demand:* the consequence of a failure of the previous activity and employment.

And this abatement of the *worst* effects of local or general speculation, is the result simply of a *basis of the currency* which does not, as at present is the case, whether stocks be *excessive* or *scanty*, demand an indiscriminate and unlimited *sacrifice* of property; to obtain, amidst a sudden contraction (of unforeseen extent) of the currency, the *usual* and *essential* facilities of money. Suspected parties,

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* See pp. 63 and 64. † See pp. 108—112.

whether with regard to the prudent conduct of their business or the sufficiency of their means, would be *excepted*, just as now; but there could be no *universal* denial, nor extortionate and exhausting *value*, of money, as, under the present system, has recently been the case, when the applicants and the securities have been, both of them, of the *highest* class.*

Nor would the *distrust* of parties, as at the present moment, be *general*, as the consequence of the universal loss of capital by depreciation alone; but it would be restricted to the imprudent, and to a limited class of sufferers, whilst the credit of all others would rise to a corresponding premium, so to speak, which would serve to procure for them the usual *discounts* and Banking *facilities*, not at advanced, but at *reduced* rates, and that in the *worst* of times.

* See note to page 43; also pp. 81 and 82.

Section XXX.

RECENT COMMERCIAL CIRCUMSTANCES, CONSIDERED AS THE FAIR TEST OF THE EXISTING SYSTEM OF CURRENCY, AND OF ANY PROPOSED MODIFICATION THEREOF.

1.—RECENT COMMERCIAL CIRCUMSTANCES, THE TEST OF THE PRESENT SYSTEM OF CURRENCY.

For illustration of the positions we have essayed, in the foregoing observations, to maintain, the commercial events of the year 1847 have been chosen, as being fresh in public experience and recollection. The commercial crises which marked the period under, and antecedent to, the Bank Restriction Act, are, as evidence, necessarily less conclusive, chiefly from three causes; first, on account of the absence of regular and authentic *returns* to show what the *aggregate* Bank note circulation had then been; secondly, the operation of the *Usury Laws*, which, although they might in many instances during a money panic restrain the advance of interest beyond the legal rate, yet neither did so certainly, nor averted local contractions of the currency, nor prevented (what is of equal commercial consequence) the refusal *altogether* of the ordinary Banking facilities; and thirdly, on account of the stimulating prospects and arbitrary reverses to which British commerce, by hostile foreign operations, was *directly* subject during a protracted and eventful *war*.

Between the circumstances, again, of the year 1826 and those of 1847, there appears to be mainly this difference, as bearing upon our argument: that, in the former instance, the export of bullion and the contraction of the currency, had occurred at about the highest speculative point to which the previous excitement had forced the prices of fixed pro-

perty and produce; and the depreciation was necessarily the greater on that account; whereas in 1847 there had been no *general* speculation. Under an arbitrary advance of interest by the Bank of England in October, 1845; and through the alarm which, in the early part of 1846, had been generated by the prospective and actual detention, by the Government officer, of the railway deposits to so large an amount; the railway fever, as a national infection, had been quenched; and although the prices, both of completed and well-projected lines, had in consequence fallen generally by some 20 to 30 per cent., and were then at prices moderate enough;—the merely *speculative* projections being, at the same time, set aside somewhat earlier than they might otherwise have been;—yet, until the spring of 1847, the depreciation of railway property, although very great, may be regarded, in a national point of view, (and excepting individual cases) as entailing upon the *main body* of the sufferers little more than a loss of their earlier *gains*. But the *later* depreciation of that property, consequent upon the money panics of April and October, 1847, was of a much more serious character. It went to reduce even a comparatively *moderate* price by 30 to 40 per cent. further; and to embarrass or ruin numbers of those formerly wealthy parties who, tempted by what they reasonably *considered* to be moderate prices for the leading stocks, had invested in them after the first and second depreciation; whilst an equal and simultaneous destruction of capital has been visited upon the country at large though a proportionate reduction of the value of *all other* property: the market prices of which, with few exceptions, may be also said to have been previously moderate enough, relatively to the then existing supply and demand. This subsequent and universal depreciation may truly be said to have exhausted, not any merely temporary *profit* upon property generally; but that *principal* and *capital*, the accumulation of which had been

the work of *many previous* years of national toil and application to business.

In an earlier part of this inquiry, the effect of a failure of domestic *crops* as alleged to be an *essential* cause of the present embarrassment; the natural process for abating its worst consequences; and the unfortunate connection which the existing Currency Laws *uphold* between the merely *partial* loss of capital, from such a cause, and its *national* dissipation, under a depreciating impulse of the money market, have been already adverted to.*

The losses arising, singly, from *speculations in Corn* in 1846-7 were comparatively partial and limited in their effects; and even these must also have been doubly aggravated, in every way, by the operation of the greater and more general cause of embarrassment specified.†

The year 1837, again, being preceded by large investments and loans abroad, was more similar to that of 1826; as that of 1839 was, in its chief commercial circumstances, to that of 1847. But the latter year is totally different in those circumstances from 1826; and, although individual and numerous exceptions must ever be found, it is scarcely probable that another year may soon transpire which shall offer a more favourable opportunity for testing fairly the essential principle of the present Currency Laws, by a condition of the country *less* under the influence of the usual amount of what may be termed *over-trading*: so much so, indeed, as to warrant the conclusion, that if no *final* decision is to be taken upon the merits of the present laws until the opportunity for a *more* favourable experiment shall present itself, such decision may be deemed to be virtually and permanently *interdicted*.

As a class of legislative experiments, the existing system of currency, it will not be denied, has enjoyed every con-

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* See Section XIV. † See pp. 67 and 68.

ceivable advantage for its fullest developement and trial. An unlimited discretion as to all its principles and details, which the high reputation and the political influence of its founder and proposer secured for its first introduction, together with the abundance and variety of commercial incident which a period of *thirty years* has afforded for the amplest observation of its effects, warrant, we humbly submit, the conclusion that the system has, at least, had a *fair trial.* And if, notwithstanding *all* these advantages, so little *good* and so much *evil* has resulted; if the entire commercial, and the Banking community with, perhaps, one *solitary* exception, protest against the operation of its last and most *finished* touch; if an array of *facts* can be produced to show that the system is really *contrary to the nature of things;* as, with all deference, we must submit to be *demonstrable* by the argument (if sound) of the *fifth* and *sixth* sections of the present inquiry into its effects; and if, while it is true, that the country is really sinking into *despondency* under the last and heaviest blow upon its best energies, so many, at least, respectable authorities have agreed that the system only becomes *more* intolerable as it becomes more *perfected;* is it, at all, unreasonable to propose, for as full and fair a trial, an essential modification of that system, of more benign influence; or, under that system, to forebode the peril or ruin of all that is valuable or sacred in the country?

2.—THE COMMERCIAL CONDITION OF THE COUNTRY, THE TEST OF ANY PROPOSED MODIFICATION OF THE PRESENT SYSTEM.

The widespread commercial distress which, through revulsions and losses in trade during the past year, still deeply afflicts the commercial public; has doubtless reached, through various channels, the several classes of sufferers. One class suffers *innocently,* as the consequence solely of the fall of others; and these again, as the result, in too many instances, of their own palpable imprudence or reck-

lessness; but, in the *majority* of cases, the national calamity results from the *generally* unfortunate issue of the ordinary enterprise and commerce of the country, conducted with common prudence and sustained by adequate capital. Several, it is true, though few comparatively with the whole, may have escaped with only little, and a yet smaller number, possibly, with no loss at all.

But the *grand* cause;—and it is the same in its consequences whether it apply to the reckless or the prudent; the cause of those universal and great commercial losses could not have been a *partial*—it must, to have corresponded with its effect, have been a *general*—one. And if, from the nature of the case, from the *agency* of its operation, and from the universal admission and *experience* of its effects, a general cause, adequate *of itself* to produce such results, has been adduced; and if there exists, as would appear to be the case, no other to which it would be possible to trace consequences of such magnitude and universality; it is, at least, a tolerable presumption that such is the *true* origin of the evil which now bears down the nation.

That *cause* is the disappointment of industry of its reward, by a depreciation of the value of its productions; the destruction, to the extent of such depreciation, of the capital invested in such industry; and its *consequences* upon public enterprise—the *arrest* of such industry; or, in other words, the throwing out of *employment* the population which that industry had sustained, and the attendant failure proportionately of the *demand* for, because of the contraction of the means of purchasing, the produce universally of the *field*, the *factory*, and the *hand*.

The condition of the country, then, to which any modification of the present system must adapt itself, is this *loss* of *capital*:—loss of the *means* for, and of the *motive* to, the usual amount of industrial enterprise, and with a view to the earliest reparation of the public damage thereby sustained.

Section XXXI.

THE ALTERNATIVE.

1.—THE ABANDONMENT OF THE COLONIES, OR—A MODIFICATION OF THE CURRENCY.

The design is at length conclusively, it would seem, adopted that, in the present condition of the parent country, the Colonies of the British Empire should be got rid of.* To discuss such a topic *in extenso* is beyond the province of our present enquiry, except in so far as the *abandonment* of the Colonies is deemed indispensable, on the assumption of a commercial principle which, it appears to us, cannot be successfully defended: namely, that because the Colonies are a burthen to the Revenue, they are, *on that account*, a source of *loss* to the *country*.

Admitting the premises, where shall this abandonment stop? If the principle be sound that, whenever a branch of the empire ceases to be profitable, or becomes a source of loss, to the *fiscal* revenue, it must be abandoned, to what does it lead? Would you therefore abandon *Canada* and the *West Indies* to their fate, but leave *Ireland* in undisturbed connection? Would you not have to erase *Staffordshire* from the map of England, provided the merely *fiscal* cost of its connection, from some peculiar circumstance, happened to be an annual charge of one million sterling upon

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* "The extension of freedom for industry, with a gradual *release of our* NUMEROUS *colonies from Metropolitan control, and their establishment as independent and free communities*, releasing us from *the charge of maintaining them*, are now, perhaps, *the means more likely* to get us over our *present* difficulties. The example abroad cannot be without its influence at home; and while it may be necessary to make some concessions to popular opinion, those concessions should not involve any projects originating with the Government, or any *organic* changes, but such an *approximation*, as the *Ministers* may regard to be safe, to the popular demands."—*Economist, May* 13, 1848.

We have put in *italics* the more remarkable portions of this extract. All, however, that the present inquiry has to do with such suggested political changes is to consider their alleged *effect* as a *remedy* for the "*present* difficulties."

the other counties? For, in discussing the *principle*, the *collateral advantages* of the district to be isolated,—its natural, industrial, and commercial resources, as well as its political position, are not to be weighed; but only the *single* fact that it costs the country to hold it just one million more per annum than its taxes annually produce. It is, therefore, a loss to the country of so much, and the country would gain so much by *cutting it off*.

Suppose this principle then, to be carried out, first, with regard to the colonies. There can be little doubt that in the *West*, the entire of an immense population, now subject to England, would be immediately transferred, with all its political advantages (to mention no other), to the United States. Our Eastern territories would pass over to Russia; and Gibraltar, with other important European posts,—which are probably, in point of fiscal revenue, the most costly relatively to their population,—possibly to France. But adopting the *principle* you cannot stop here, you must at least extend it to *Ireland*. And what would England be when cut down to such political dimensions, to stand against a triple alliance of *France*, *Russia*, and the *United States!* Would her independence be secure? And, yet, to such a position of relative insignificance *must* she be reduced, and at once, if this principle be adopted as sound, and be carried into practice.

So far from *conceding* it, however, we think it far more easy of proof that, even admitting the fullest extent of the *fiscal* loss by the colonies, they may be made, if they be not now, (like the county of Staffordshire,) notwithstanding such annual charge upon the revenue, a tributary source of political power to the State, and of commercial wealth to the population at large, far outweighing the sum of such estimated annual loss.

And the advantage of *Colonies*, as distinguished from independent States,—to say nothing of the political im-

portance of their alliance with *us* compared with their annexation to a rival and possibly a hostile power,—is, that being subject to the parent country, improvements tending to their *mutual* benefit can be effected by the Imperial Legislature, when with foreign states it would be utterly impracticable.

It appears to us that great improvements in our Colonial system, so tending to mutual benefit and far exceeding the supposed loss to the revenue, are in the power of the Legislature; and that, at least, before the idea of the final *abandonment* of our *Colonial Empire* be entertained, measures of a more benign character should be tried.

And to this point we propose therefore again to revert.

2.—THE ABANDONMENT OF FREE TRADE, OR—A MODIFICATION OF THE CURRENCY.

The relation of the recent Free Trade measures to the existing commercial distress, has been already considered at length,* with the object of showing that its *causative* relation thereto is *artificial*, rather than *essential*.

And it cannot be denied that the present condition of the *West Indies* is such as *apparently* to justify the idea,—as the only means of relief to those colonies,—of restoring to them, in a greater or less degree, the privileges they enjoyed under the former protective system.

Let us not, however, be understood, in any remarks we may now make on this as on the last topic, to defend, as a *partisan*, either side of the controversy touching the Free Trade system. With the general merits of that question, or of the still graver subject involved under the next head, this dissertation is no way concerned. The allusion to these and to other *political* topics becomes necessary to our plan only because decisive, if not organic, changes are or have

* See Section XVIII.

been advocated, and are, perhaps, likely to be carried too, with the view, professedly, of obviating the causes of the present national distress.

The almost ruined condition of the *West Indies* is *exclusively*, or nearly so, attributed to the *depreciation* of its *produce*, as the effect simply of an *over-supply* in the British market, consequent upon the reduction of the former scale of *protective* duties.

That an *over-supply* of any commodity is naturally the cause of a proportionate *fall* of its market *price*, is certainly true. But it is *not* true, that such a cause would account for the whole extent to which the value of colonial produce and property has recently fallen, or for the *major portion* of the decline. Because it is equally obvious that a proportionate depreciation must have occurred also,—even supposing the *supply* to have been unaugmented,—with every corresponding contraction of the *demand*.

Not that we wish to deny that the article of *Sugar*, down to a certain period at least, is perhaps the *only* one, of which this comparative consumption appears to be *undiminished*. But this is not the *point*, touching the immediate relation of the subject. That may all be true. But it is also true, if something like *one-third* of the population, during the last *nine months*, has been out of work; that the *consumption*, under other circumstances at home, must have been materially and indefinitely *greater*. A failure of the demand, in *conjunction* with an over supply, (if both are to precisely the same extent,) has at least a *double*, but more probably a *quadruple* effect upon the *price*.

For example: If the consumption of *cotton* in 1846 were 30,000 bales weekly, the supply being a given quantity, and the average price, during the same period, 6d. *per lb.*; a supply, in 1847, increased by 30 *per cent.*, the consumption continuing the same, would have a proportionate effect upon the *price*.

We will suppose that the price might, at first, fall to 5d. *per lb.;* but should the consumption *increase,* as it ordinarily would with that supply, the price would rally to some relative extent, and thereby reduce the prospective loss to the *importer;* and if the increased supply were the result simply of a *good crop,* there might eventually be no loss at all, either to the *importer* or the *grower.*

But suppose that the consumption did *not* continue the same, but diminished also by 30 *per cent :* it is clear that the depreciation which would now result, must be at least *double* of what it was in the former case; and must be greater still, if the failure of demand were accompanied by a *panic pressure* and *necessity* to force off even the *usual* stocks. The decline now, consequently, would not be 1d., but 3d., 4d., or *more per lb.* This has, indeed, been recently *verified* by the facts of the case; for the *price of cotton had fallen to about the lowest point ever known,*— not from *over-supply,* but with the most unprecedentedly *deficient* relative supply, for *three successive* seasons, too; with the most unprecedented *reduction* of all the *stocks,* comparatively to the preceding scale of consumption; and *entirely* from a falling off of the *demand* by some 30 *per cent.* No person familiar with the ordinary course of trade can doubt the certainty, that with the *former* scale of consumption, the present price of cotton must have been nearer 1s. than 4d. *per lb.*

Therefore, then, with regard to *Sugar,* while the natural effect of the greatly increased supply must be admitted, it becomes equally palpable that, with the progressive increase of the consumption,—which must have been sustained had no cause transpired to throw the *people* out of their usual *employment,* and to force the *stocks* of every thing *pellmell* upon the markets *without regard to the demand,*— the price of sugar, *notwithstanding* such abundant supply (which, besides, was in a great measure the consequence of

good crops), must have been upheld at a price, perhaps, very little below what it had been in 1846; and whatever the depreciation might have proved, it would still have been such only as could, with comparatively little difficulty, have been borne by the Colonies.

Why, then, propose as a *remedy* that which does not reach the cause of the *greater* depreciation? And why break in upon a *system* of laws for so futile an object? If the cause of the greater part of such depreciation of the value of *sugar*, under an *over*-supply, be only the *same* as that which, with an equally *deficient* supply, has even to a *greater* extent depreciated the value of *cotton;* why think to benefit the West India interest by protective laws *merely*, when, had such protective laws existed in 1847, with even a short crop of sugar, the ruin *might* perhaps have been greater (as shown by the instance of cotton): because a *low* price upon a *deficient* production or bad crop must be a more distressing source of *loss* than even a *higher* price upon an *abundant* one?

And if it still be urged that West India property has fallen *so greatly* in value; let it be ascertained how much *more* the property—the factories and machinery—of the Manchester cotton spinner has declined. The latter, if we mistake not, is in many instances *inconvertible* though at a reduction of 50 per cent. from its nominal value, to say nothing of the much greater *cost* value to the owner.

In these remarks, we repeat, we are not objecting to the adoption of such measures of relief to the West Indies *because* they must entrench upon that Free Trade system which the public had been taught to regard as *mutually* beneficial to the colonies and the mother country; but because such measures must, in the nature of things, be perfectly *inoperative* to remove the *occasion* of the present distress; and because they must, therefore, be only *temporary*, if resorted to for such an object, and, conse-

quently, serve, by the renewed unsettlement of our whole commercial policy, only to make matters still worse for those who depend upon them.

And *why* not extend similar relief to the *manufacturing* interest, to the sufferers by importing *cotton* or *corn*, if the causes of even greater losses to these latter are indentical with those which afflict the West India interest in perhaps, after all, even a *less* degree?

3.—THE PERIL OF THE CONSTITUTION, OR—A MODIFICATION OF THE CURRENCY.

In proportion as the usual means of supporting existence begin to fail amongst the population, the outcry against the burthen of *Taxation* becomes loud and general; and under such circumstances public *retrenchment* (because it then naturally appears the more necessary) will be demanded with a force of application which will scarcely brook denial; and, if unsuccessful without such means, will, for such an object, carry even *organic* reforms.

Yet how small, from such a source, must be the amount of *relief* to meet a case in which probably *one-third* of the usually employed population, with their masters to boot, may be said to have been thrown *out of work?**

Suppose that, as the early fruit of *Universal Suffrage, Vote by Ballot,* and *Annual Parliaments,* for example, a reduction of the taxes, by retrenchments in the *Army* and *Navy* expenditure, the *Civil List,* and the *Church Revenues,* should be effected to the extent of 5 millions; in what degree would the change be perceptible as a channel of alleviation, *unless* it were accompanied by a return of the population to *full employment?*† And *with* full employ-

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* See note to page 108.

† Were we to take the average Personal expenditure of a population, in England, Scotland and Wales, of 22 millions, at only £20 per head, it would give a total sum of £440,000,000: an estimate which is, doubtless, low, judging by the

ment and its attendant commercial prosperity, such only as were enjoyed throughout the year 1846, how comparatively few would be found to agitate for such Reforms, on the plea merely for a reduction of Taxation? To the credit of England, be it said, demands for organic changes are made only in times of *real* distress.

Not that we would not disparage the most earnest efforts of public men to promote *due* economy in the application of the public revenue. We merely put the question whether the most *rigid* degree of retrenchment *possible*, as touching the immediate causes of the present suffering and discontent, could accomplish for *England* more than "*Repeal*" would for the real exigencies of *Ireland*?

4.—THE ABANDONMENT OF COMMERCE TO ITS PRESENT CONDITION INDEFINITELY, OR—A MODIFICATION OF THE CURRENCY.

A modification merely of the *Bank Charter Act* of 1844, unaccompanied by a modification of the *basis* of the present *system*, we have shown to be nugatory and delusive.* It is *motion* without *progress*.

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annual consumption of the *cereal* produce of agriculture alone (see notes to pages 133 and 12), as stated upwards of twenty years ago, at nearly..... £280,000,000

When, also, according to *Pebrer's* Statistical Tables, 356, there were consumed *at home*, of *manufactures* alone 100,000,000

If these items were so much twenty years ago, they at least must be 30 per cent. more now, or 130,000,000

The consumption, further, of cattle, swine, poultry, &c., with the rental of *houses*, can scarcely amount to less than one-third of the total of the above items, or 170,000,000

Whatever may be the want of exactness in these items, they are probably much nearer the facts than the lower estimate. But, taking the *mean* sum, or about £600,000,000 for the total of income for *personal* expenditure; and supposing its abridgement, during the last *nine* months, to have been at the rate of only *one-sixth* per annum, we have £100,000,000 as the reduction in the public means.

It is but too plain that, with so great a failure of wages and income, the payment of the usual taxes must bear peculiarly hard upon the country: but still, what influence can their reduction, at the rate of 5 or 10 millions per annum, possibly exercise upon the contentment of the population, when compared with a restoration of the usual complement of wages and sustenance, to the extent of some £100,000,000 per annum? The two modes of relief are indeed so far beyond comparison, that the former must be individually *imperceptible*, and therefore *ineffectual* as respects its *object*.

* See pp. 115, 116, and 121.

For what does such modification amount to? It is something *less* than the *total* repeal of that Act of Parliament. But what would even its *total* repeal effect?

We do not mean to deny that the Act of 1844 is an unnecessary and special cause of aggravation. But its removal would still leave behind, although its retention cannot avert, those panic-producing contractions of the currency to which, under a drain of bullion, the Bank must still resort, as the *last*, though not, as under that Act, the *first* step, to stave off "*inconvertibility*."

When the drain has fairly commenced, can any one tell at *what* point it will stop? Will not prudent men who have retained, and the majority who during the *drain* have lost, their capital; the one from prudence or *panic*, and the other from the loss of means and necessity, both retire from the field of enterprise? And what is the result of that step, but a state of depression *identical* with the present condition of the country.*

Is it indeed a *debateable* question whether what had occurred in 1826, or in 1839, in the *total* absence of the restrictive clauses of the Act of 1844, would, under precisely the same circumstances, certainly occur again? Why then rely upon either the *partial* or the *total* repeal of an Act, when the case to be met is one which, *without* or *with* that Act in force, *has* arisen, and, on the failure of *crops*, or through large investments in foreign securities, or with the recurrence of *war*, must *again* arise?

What will you do then? The *worst* may not even yet be past; and certainly is *not* so, should a demand for bullion, similar to that of last year, be early renewed. An *immediate* revival of the *Bank Restriction Act*, or a scale of commercial and political confusion far surpassing any thing that has yet occurred, must in that event ensue. And,

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* See pp. 69 and 70.

suppose it should be otherwise; what may yet be the *sequel* of the money panic of 1847? Are its consequences confined to the losses of the *fallen* houses? We fear this impression is too general. What proportion can these bear to the *aggregate* of those losses sustained by houses which *stand*, but stand, *many* and perhaps the *larger* of them, on the very *brink* of the precipice: over which, too, they must *yet* fall, indeed, *are* falling weekly; and from which nothing can save them, short of the restoration of their *capital*—(not *property*, of which they still may hold *as much as at any time*)—their *working capital*: which has *evaporated* in the falling market *price* of their stock in trade.

A general *rise of prices*, early or late,—whether it come with or without the Act of 1844, through a new Act of Parliament or any other process,—*alone* can restore the lost wealth of the country. And even though such restitution should be made *to-morrow*, what security would there be against a reverse similarly sudden and withering to that which has recently occurred; unless it were, at the same time, accompanied by some process which should effectually *disarm* of its power of mischief the present fortuitous action of the money market? Far be it from us to insinuate, or to think that what we have ventured to suggest as in our best judgment suitable, is either the *only* or the *best* plan of remedy. But we humbly submit, upon the evidence adduced, that *no* plan which fails in the proposed *result*, whatever may be its merits in other respects, will meet the case; that the *repairs*, if the breach does so, must commence at the *foundation*; and that the simple, or rather the *grand defect* to be remedied, is that power, capriciously and almost periodically exercised, in the currency, which, in a few *months*, effects the destruction of the national capital upon a scale which as many *years* cannot, under the same system, restore.

Section XXXII.

THE INTRODUCTION OF THE PROPOSED PLAN CONSIDERED AS A MEASURE OF *PRESENT* RELIEF.

It may be deemed something in favour of the plan itself, that the *effect* of its introduction, under any given circumstances, *admits* of being measured and anticipated on certain and obvious principles of calculation.

The practical question then is, as to the *result* upon the *present* condition of the country,—*depressed* through its loss of *capital*, loss of *moral confidence*, loss of *employment*, loss of *commerce*, loss of *revenue*, and loss of *civil tranquillity*,—of an immediate adjustment for a *permanent supply* of money at a *permanently moderate rate* of interest, secured satisfactorily to the public by the national guarantee.

It is necessary, however, to observe clearly the distinction between a sufficiently moderate value of money, with *no* security whatever for its *permanency;* and a value of money which is not only moderate, but *certain to remain so* uninterruptedly. The influence which the first would exercise upon the useful application of capital would be precarious, hurtful, and limited to the degree of confidence which only the *boldest** would most feel; whilst the moral influence of a basis for national enterprise on which the *most* prudent might build with confidence, must be *general*, *equable*, and *enduringly* beneficial in the highest degree.†

If, then, by the preceding argument we may have succeeded in establishing, as practical truths in commercial or political economy, the following propositions:—

1. That the *value*, as distinguished from the *bulk*, of

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* See page 72.

† See Section XXI.

the national property, constitutes the industrial and commercial *capital* of the country.*

2. That the *greater* value, relatively to the *cost* of production, is *the only incentive* to individual, and consequently to national enterprise ;† or to the enlargement and cultivation generally of the field of industry and commerce.

3. That the *value* of individual property, and consequently the *amount* of the *national capital* available for useful application, is in proportion to the value of money, or to *the rate of interest ;*‡ and that the *physical medium* of the mere *transfer* of property is limited and reduced by every arbitrary contraction of the quantity of available currency.§

4. That an *advance* of the rate of interest, we do not say, involves *possibly*, or *probably*, and *at some distance of time* afterwards ; but, (*cæteris paribus*,) is *in itself* an *essential depreciation ;* first, of all *fixed* property ; and subsequently, through their mutual relation and dependance, a depreciation of *floating* property :‖ in other words, that the *working capital* of the country—consisting merely in the *value* of its property—is at the mercy of *a simple change in the rate of interest*, to make it at any time *greater* or *less*, as may be *high* or *low*,¶ the point at which the rate of interest, so changed, becomes sufficiently *established* :—

It will follow :—

1. That, as the great advance of interest and contraction of the circulating medium in 1847, involved and produced a corresponding degree

* See Sections, III. † Section I. ; also pp. 17 and 130. ‡ Section V.
§ pp. 30 and 31. ‖ pp. 20, 60, and 61. ¶ See note to page 62.

and extent of *depreciation*, affecting all descriptions of property;* so the adjustment of the interest of money at its average rate, and at what it was at the *commencement* of the year 1847,—so soon as the public shall clearly perceive that such rate will be permanently sustained,—must be followed, gradually or promptly, by a proportionate, but thereby *limited*, *appreciation* or *rise* of the *prices*; first, of all *fixed*, and—as a consequence sooner or later—of all *commercial* property.

2. That, as the existing great *depreciation* of property is *identical* with an equal dissipation of *commercial capital*; so the *appreciation* of such property, or a *rise of prices* to that point from which they had been *arbitrarily* depressed, is identical with an equal *restoration* of commercial capital, whether its amount, which had so been extinguished, were 100, 500, or 1000 *millions sterling*.†
3. That, as the capital, by such process *restored* to the country, must seek the usual and the previous channels of employment; *the ordinary demand for labour* will replace in its wonted service the industrial population, now languishing, to so distressing and dangerous an extent, in idleness and destitution.
4. That, as the present *contracted* state of the *demand* for all property, commercial and private, is the necessary effect of a proportionate *abridgement* of the *means* of purchasing, for ordinary use and consumption, the productions of industry; and the abridgement of those means, in the population at large, is the result of the present great and general *interruption* of *industry*, and of the

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* See Sections II., VII., and VIII.

† See page 15.

dependant course of trade; so, with the *return* of the industrial population to *full employment*, must succeed the *usual* and *corresponding demand* for all productions; and at legitimately *advanced* prices, *until* the *future* supply, as the commercial result of such advance, shall naturally overtake again this invigorated consumption.*

5. And that, therefore, from the *present* introduction of a plan adapted to secure *a fixed moderate rate of interest*, must flow, as its necessary consequences,—the renewed activity of industry; the legitimate gains of commerce; the improvement of the Revenue; the contentment of the public mind; and the appropriate alleviation of the present intense degree of real suffering in the body politic, which, unless relieved, must only continue to be, as now, the aggravating, but successful topic of dexterous, or of mistaken, public declamation by every political incendiary.†

Such then—until a *flaw* be found in the foundation upon which such a conclusion rests—would appear to be the beneficial public effects of a timely modification of the existing *Laws* of *Currency*, upon a plan at least *similar*, in design and application, to that which we have, at such length, and, we fear, so tediously to the reader, attempted to deduce and illustrate.

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* See pp. 4 and 130—132. † See pp. 105—107; also page 237.

Section XXXIII.

THE *OPPORTUNITY*, AND THE *PROCESS*, FOR AN INTRODUCTION OF THE PROPOSED MODIFICATION OF THE CURRENCY.

1.—THE OPPORTUNITY FOR AN INTRODUCTION OF THE PLAN PROPOSED.

The more suitable conjuncture of the *money market* for this purpose would, of course, be that in which, as the ordinary consequence of a *confirmed* accumulation of *bullion* in the Bank of England, the *price of Consols*, as was the case in 1844 and 1845, should be at or about their *par* of 100.

The circumstances of the *currency* in relation to the price of *bullion*, at the period of the *enactment*, or during that of the *operation*, or at the time of the *suspension*, of the *Bank Restriction Act*, would have presented an equally suitable juncture for the introduction of a plan, so related to the value of bullion.

And it appears to us that the introduction of the plan into *France*, in the present situation of the currency of that country, must be most opportune, and must exercise over its now wasted resources, ruined commerce, arrested industry, and civil confusion, none but the most ameliorating and tranquillising effect; by restoring to its *money* market *certainty* of operation and of prospect: the *only* channel through which its *commercial* confidence, and, therefore, its *industrial* enterprise can return; which, again, is the sole medium through which can be furnished to its now dominant populace, uncontrollable from the want of it, that adequate employment and means of self-support, the absence of which in all countries, but especially in France, becomes, irrespectively of the character of the *government*, the

first and *grand* incentive to popular insubordination and civil revolution.

Latterly the stock of bullion in the Bank of England has been as high and even higher than during the period in 1844 and 1845, just referred to, in which consols continued so long at or about *par*. But the *natural* effect of this great accumulation has *itself*, like everything else, been *paralysed*; first, by the great destruction of capital and confidence which follow so promptly an *efflux*, but are more slowly repaired by the *reflux*, of bullion; although, with regard to *consols*, the advance is earlier than in the case of any other property. And, secondly, the ordinary effect of so large a stock of bullion upon the value of securities, has been greatly counteracted during the former portion of the year by the prevalent doubt as to its *continuance*, amidst the uncertainty as to the extent of the further requirement of foreign breadstuffs; as it has been, subsequently, by the alarm and imminence of a foreign war since the recent revolution in Paris.

But for such adverse circumstances, the price of consols must almost certainly, with the foundation of so large a stock of bullion, have now been at about 100.

But those adverse circumstances, it is obvious, can only* act upon the *money* market first, and, through the money market, upon the value of securities and property generally, by creating an incipient *panic*, or an impulse towards a *money speculation;* through the impression either that a *drain of bullion* must occur and render the currency inadequate to the ordinary demands for its use; or, that an increased demand will arise from the necessity for new public loans,† and by that means raise the value of money.

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* See page 216.

† The comparatively trivial effect which such increased demand merely could exercise upon the value of an *undiminished* amount of *currency*, has been considered at page 33.

If such be the medium of relation between that contingency and the value of property, as an attentive consideration of the case would seem to suggest; if the money panic engendered by the alarm of war or of a drain of bullion be simply the apprehension of the demand exceeding the ordinary supply of the currency, or of the ordinary supply being reduced with reference to the ordinary demand; then it will follow, that whatever event should have the effect of restoring public confidence, in the *certainty* of the provision for a *permanent* supply of currency; the interest value of which should be incapable of either *diminution* or *increase* through any possible *variation* in the *demand*, from *whatever* cause; must serve at once to neutralise completely such incipient money panic, or failure of *confidence* in the supply and value of money.

Consequently, with the re-establishment of public confidence at the point it had reached in 1844 and 1845, the price of consols, upon the present stock of bullion, must and would gradually rise to *par:* whilst fixed property generally,—the established lines of railway for example—would also rise to a *price regulated* solely by the rate of their prospective and varying *annuities*.

And this advance of consols to their present *natural* value would present the *most* convenient opportunity for the introduction of the proposed modification of the currency.

Not that such peculiar juncture for its introduction, is at all *essential* to the efficiency of the plan. The *stock* or the *value* of bullion is quite immaterial in that respect, because the *scale* of *prices*, once put into operation by the National Bank, by means of a proportionate premium upon a deficient stock, would gradually promote its accumulation and *return* to its *par* value.

But still a conjunction constituting each of the *three* elements at *par*, is more desirable, as it would present to the public, during the *novelty* of its first operation, no practical

discrepancy whatever, as compared with the existing state of things; because the first issues of the proposed National Bank would then be made with a *stock* of *bullion*, which—conformably with *Table* No. I.* and with the *fact* that consols, with an equal stock and in the absence of disturbing causes, *were* recently so—would constitute the issues also at par: so that £100 of the *currency*, £100 of *consols*, and 100 *sovereigns*, would be then mutually and respectively *equivalent*, the one to the other.

2.—AS RESPECTS THE PROCESS FOR AN INTRODUCTION OF THE PROPOSED PLAN.

The *earliest* stage of such process would be, of course, the public conviction, first, that the existing national distress is so *great*, and the liability to a repetition of it so *constant*, as to demand some form of present and permanent *legislative* relief; and, secondly, that the plan entertained was competent to produce such a result.

The *second* stage, in order, would be the entertainment, the cordial approbation, and the energetic prosecution of any approved plan by the *Government* of the day.

The *third* stage, and the most important, evidently, with reference to any *immediate* relief, would be (supposing such to be deemed essential to the object) the *definite arrangement*,—which is properly the first *active* movement,—between the *Government* and the *Bank of England*, as to the *transfer*, first, and then as to the *terms* of the transfer, of its privileges of issuing notes during the six or seven intervening years before its charter shall again be open to legislative revision and absolute modification.†

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* See page 196.

† "As to the *duration* of the Charter, we propose that it should be renewed for a period of twenty-one years, with a power of revision by Parliament (at any time) at the expiration of *ten* years."—SIR R. PEEL, 6th May, 1844—*Hansard.*

And here, we may be asked, why we propose, as a measure of *present* relief, a plan depending for its first operation upon a course of conduct by the Bank of England, which, until compelled by the natural expiration of its privileges under the present charter, it cannot be expected to adopt?

And the answer is that, supposing the application to the Bank preceded by the first two stages of the process,—that is to say, by evidence satisfactory to the country and to the Government, that the *national welfare* demanded, at least, that the application should be made to the Bank; it would be impossible,—on the ground first of its *own* interest, and next of the *public* consideration which must, as always, have great weight with that institution,—that any reasonable proposition from her Majesty, through her Ministers, and on behalf of the country, should not be cordially entertained; so long as that proposition provided *preliminarily* for the *fullest amount of compensation* to the Bank for its *present profits* upon the use of the privileges proposed to be transferred: that the Bank should, in fact, be left in precisely the *same position as now* in respect to any profits upon those privileges, as also with regard to the present annual payment to the Bank for the management of the Public Debt. And if, besides so *confirming* the Bank in the possession of all her present lucrative emoluments to their fullest amount, its interests should be *increasingly* promoted by that part of the plan which constitutes the Bank in the *sub-agency* of the National Bank of Issue, creating thereby an *addition* to its present revenue; as also by—what cannot be regarded even by the Bank itself as a light satisfaction—the *permanent settlement of the currency* upon a basis which must ensure the Bank against those repeated charges of mismanagement and indiscretion which its present constitution allows the government to prefer; and which, at the same time, must also ensure the greater and safer *augmentation* and *regularity* of her commercial Banking

business, uninterrupted by the confusion incident to a money-panic.

We cannot hesitate, therefore, to anticipate that such a proposition to the Bank of England, even for an *immediate* transfer of its privilege of issuing notes, upon terms so favourable to itself, and upon a *public exigency* like the present; must meet with all the consideration due to the parties concerned, whether it had reference to the plan suggested in these pages, or to any other equally advantageous to the Bank and to the country: for the contrary would be to suppose the Bank *forgetful* entirely of its own interests—of its *past* lucrative and long-continued advantages enjoyed as a Bank monopoly—and of the *certainty* that the refusal of so reasonable an application under such circumstances, could not possibly be *overlooked* by the country on the earliest *future* revision by the Legislature of the current Bank Charter.

The *fourth* stage, then, of the process—assuming the Government to have ascertained the sentiments of the Bank to be favourable—would, of course, be a proposition of the plan by the Government to the Legislature; and in proportion as its proper effect became *generally* and *practically* understood, and as the prospect of its being adopted grew upon the public mind, the *price* of *Consols* would approximate to their prospective value in the proposed three per cent. currency: which would present the opportune *juncture* for an Act of the Legislature on the subject to take effect.

And, being once so *introduced* and *established by law*, the *currency* of the *country*—unless the *basis* of our argument may be subverted—would be placed in that position of security against the ordinary reverses to which, as recently explained, it is now incident. And as it should be found to sustain the confidence reposed in it, by the regular and undisturbed exercise of its proper functions, the national enterprise, industry and wealth would proportionately and with the same regularity, advance and expand.

Section XXXIV.

THE RELATION OF THE *STATE* TO THE POSITION OF THE *CURRENCY*.

1.—THROUGH THE FAILURE OF THE *REVENUE* CONSEQUENT UPON A MONEY PANIC.

It will not be disputed that the sources of the Public Revenue are more or less productive in proportion as the consumption or use of those commodities from which it is collected is greater or smaller. Nor is it a less palpable truth, that the consumption and use of such commodities are greater or less, just in proportion as the national industry is more or less active, and the employment of the population is more or less general.

As this law of the subject has already been adverted to at large,* further confirmation may seem superfluous. Yet, as the truth in question forms in our plan a great elementary and practical principle, it will be proper to recur to it with more particularity, on account of the special illustration and support it derives from the *present* condition and prospects of the revenue.

On comparison with the corresponding periods in 1846, the receipts during the last *six*, but, most of all, during the last *three*, months of 1847, furnish a very striking example. The first quarter of 1847 exhibited an *increase* in the ordinary sources of revenue, of £2,337,113; the second quarter, an *increase* of £2,615,871; the third quarter, instead of the same progressive growth, a reduction of the increase on the preceding quarter, to £312,764; whilst the next quarter, besides the loss of these actual increases and progressive *ratio*

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* See pp. 105—107.

of growth, shewed a positive *decrease* of £1,065,540; and the succeeding quarter, a decrease, upon the fiscal year ending 5th April, of no less than £1,694,736!* So great has been the failure of the *Revenue* since the first interruption of the national industry, in May last, and its more general interruption after the October panic in the money market.

It is now proper to inquire, what must in all probability have been the condition of the revenue, had the previously existing scale and progress of the national industry met with no such interruption?

The comparison, in this respect, exhibits a sum of upwards of £5,000,000† as the difference to the revenue in *nine months*, through the depressed condition of the country. It will scarcely be disputed that, except for the reverse in the circumstances of the population at large which has occurred since the spring of 1847, there must have been now nearly

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* "The great and important fact which is brought to light by these returns is the rapid decline of the revenue during the last three months,—a circumstance which was to be anticipated from the great contraction which has taken place in trade, and in the extent of employment during the last six months. Of the decline of £1,065,540 during the *year*, the whole, except £139,898, had taken place in the last three months. But even this does not fairly exhibit the depression which has recently existed. In looking to the decrease of the whole year, it is necessary to bear in mind that it shows the average result of four quarters; and in referring to the earlier returns for the year, we find that the comparison exhibited then large increases in favour of 1847. The comparison of the receipts from the *ordinary* sources of revenue for the year, as shown by the returns in each of the four quarters of 1847, is as follows:—

Year ending	*Increase.*	*Decrease.*
April 5th, 1847.....	£2,337,113	———
July 5th, „	2,615,871	———
Oct. 5th, „	312,764	———
Jan. 5th, 1848.....	———	£1,065,540"
April 5th, „	———	1,694,736

—*Economist, January 8th*, 1848.

N.B. We have added the April Return.

† The receipts for the year ending the 5th July, 1847, had exhibited an *increase* upon the previous year of £2,615,871;—a *gain*, upon the previous quarter, of £278,758, or at the rate of about 2 per cent. per annum: so that, with the same progressive scale of *consumption*, the above item of £2,615,871 would have been swelled, during the three succeeding quarters ending the 5th of April, 1848, by the additional sum of about £750,000, making a total *probable* increase upon the year so ending, of £3,361,877; instead of which there is the *decrease* in that period of the sum of £1,694,736. Adding both together, to show the true difference, the practical loss to the revenue on *three* successive quarters, compared with what it must almost to a certainty have been but for the interruption referred to, cannot properly be computed at less than £5,056,613.

that sum *more* than is at present at the command of the Chancellor of the Exchequer; and that the necessity to meet the ordinary expenditure, by augmenting the *rate* of taxation at a time when the public is unable, from the most complete exhaustion of its resources, to bear even its ordinary burthen, will create the loudest discontent and the most formidable resistance.

But this embarrassment of the public finances becomes truly alarming, when it is remembered that the *deficiency* is still *growing*. Every quarter makes it *greater*. And after it shall have *ceased* to *grow;* when this deficiency shall begin to *diminish;* its reduction to *nothing*—the restoration of the *income* to what it was during the *first* six months of 1847 will not be the work of *one* year, but of *several*. Such was the case after the national distress of 1839; and must necessarily be again, if the recovery of commercial confidence be left to *time* to effect, as in that instance it was. So that we may fairly estimate—and we humbly conceive the Chancellor of the Exchequer would act prudently in doing so likewise—that the *aggregate* of the net deficiencies on each subsequent year, for several years to come, will constitute an amount of loss of most perplexing magnitude, which the revenue will have sustained, and which the expedient of the Income Tax will hereafter be necessarily less available to meet.

What mainly, however, we are concerned to confirm by this branch of the subject, is the truth with which we set out, that the *productiveness* of the revenue is limited only by the *employment* and *means* of the population.

But the effect of the previous argument has been to show that the present *constitution* of the *currency* stands *opposed in limine* to *any* condition of national prosperity dependant upon the *full employment* of the industrious; not because such industry may be conceived to want adequate capital to sustain it; but opposed simply to a given extent of *eating*,

drinking, *wearing* and *using* the *necessaries* and *conveniences* of life, *whatever* had been, before that adverse action, the *means* of the consumers or the *capital* of their employers.* It is, therefore, of necessity, opposed in an equal degree to the *regular productiveness* of the *Revenue*.

And, on the other hand, a modification of that constitution of the currency, the simple design and result of which must be to *repair* so great and radical a defect in the basis; to render it compatible with the *fullest* amount of employment, and to place the currency in its natural position as an *auxiliary* to so essential an element of national prosperity; must,—as the revenue can *only* flow, and will also *certainly* flow, in the same channel and up to its highest margin,—indefinitely augment the ratio of its annual productiveness.

And what that ratio is capable of being maintained at, the *progressive increase* of the revenue up to July, 1847,—promoted *mainly* (as acknowledged) through the gradual enlargement of the *Railway* expenditure,—may be adduced to illustrate.

We may then proceed upon the assumption that a plan which should have the effect of immediately *reviving* and of permanently *sustaining* (that is in a comparative sense) the industry of the country, must have as immediate and as permanent an effect upon the *growth* of the *Revenue*.

The ratio of its increase even in 1845 and 1846 was very remarkable. It had been, but unduly, as the *event* has shown, adduced as evidence almost exclusively of the gain to be derived by the revenue from every *reduction* of the *duties*. The further increase in 1847 was still more conspicuous; yet the increase of the *second* quarter of 1847 was greater again by 8 per cent. upon that of the *first;* and the presumption is fair, that each *succeeding* quarter

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* See pp. 109 and 110.

would have exhibited, at least, an *equally* progressive improvement.

2.—THROUGH THE POWERS VESTED IN THE LEGISLATURE FOR THE REGULATION OF THE CURRENCY.

The position heretofore taken by the Legislature in relation to all former *money-panics*, has been dictated by a *prima facie* assumption, that the consequent national distress had been the result *properly* and exclusively of *over-trading*. By influential advice it therefore proceeded to the enactment of laws designed (but abortively, as the event has proved), to place a *check* upon commercial and industrial enterprise.

Supposing, then, the premises sound, either *that* course of procedure, or *non-interference* in any way, were the *only* alternatives between which the State could decide. And if *such* be the true origin of the *present* national distress, it were equally supererogatory and futile to seek relief in any modification merely of the Currency Laws.*

But if it be *not* so; if the existing distress, when closely analysed, may be traced to an origin which, even with an *absence* of the alleged and admitted cases of gross over-trading, must still have spread an equally (or *nearly* an equally) overwhelming amount of depreciation, embarrassment and confusion through all the markets, trades and industry of the country; as the necessary consequence of a sudden contraction, by *one-sixth*,† of the only and the previous medium of circulation or of payments, and an equally sudden *quadruplication*‡ of the previous rate of interest,—premises so entirely different from those which had dictated the unavailing course of the Legislature on former occasions, when called upon to consider and relieve the national distress, should, and *possibly* may, hereafter be

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* See page 109. † See page 31. ‡ See page 20 and 42 with note.

followed by public measures, directed to correct the capricious and desolating action simply of the *Currency*.

The existence of a power in the *State*, which has so recently been exercised confessedly to the public *detriment*, cannot, of course, be questioned with reference to its exercise for an object publicly useful and necessary. The *power* of the Legislature to interfere for the improvement of the currency is established by all former precedent.* That to interfere on a national emergency like the present, is equally the duty of the State, is only part of the *responsibility* which belongs to such powers; and, besides those public considerations which far outweigh all that are of a merely *financial* character, there is yet—what renders such a timely exercise of its prerogative the *interest* also, as it is the *duty* and the *right* of the Legislature to employ it; namely—the serious *deficiency*, just adverted to, in the revenue for the support of *Government* itself.

If there be a *necessary* relation subsisting between the condition of the *currency* and the *prosperity* of the country, such as the considerations adduced by us are calculated to shew; we may here venture to suggest thereupon that, *after* the introduction of any plan adapted to secure a *permanent* basis for industrial enterprise, the first efficient act of *justice*, equally to her *Majesty's Exchequer*, to a large body of suffering *capitalists*, and to an incomparably larger body of *the industrious classes* now in a state of so great privation from the loss of employment, would be the application of specific and adequate *aid* (the Government being furnished with the means by the negociation of a temporary loan for the purpose) in the shape of *advances*, upon adequate security and at a moderate rate of interest, to the leading *Railway companies*,† and companies formed for making other

* See Section XXII. † See pp. 85, 97 at foot, 105, 106, 137 and 138.

public works, as *docks*, *canals*, &c.; whose embarrassments, —from the depreciation of such property, the failure of the usual traffic upon the working portions of roads, and the loss upon portions, after a considerable outlay, abandoned, —have been so great, in consequence of the ruinous action of the recent money panic upon such property.

If, as we respectfully submit,* a *fatal* error has been propagated in relation to this subject; an error which assumes that to be the *destroyer*, which is, indeed, the grand *producer* of commercial capital, namely, the circulation of *floating*, in the *creation* of productive *fixed* capital; there seems to be no course but one open, and that is at once to abandon all action upon so dangerous a fallacy;† to turn completely round and *foster* as a national *benefit* that which had been denounced as the greatest *bane*. With regard to the possibility of a modified renewal of *speculation* in such enterprises, the *State*, it appears to us, has, under any circumstances, no course to take which can be either persevered in or defended. The law of Supply and Demand, which, in all such cases, must eventually be brought

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* See Section XVII.

† The effect of this fallacy is to *negative* the following self-evident propositions:—

1. That the multiplication of works, whether railways, houses, or farms, which securely *return* the owner 10 *per cent. per annum*, is an *addition* to the owner's and to the country's *wealth*.

2. That a return of 10 per cent. per annum from any works is the *proper* evidence of the *necessity* for, and of the *advantage* of them to the public.

3. That property, whatever be its description, which makes, or which in general estimation is prospectively certain to make, a return of 10 per cent. per annum; by that return alone, whether actual, or only prospectively *certain*, acquires immediately a value and readiness of convertibility in the market which are only measured by the concurrent interest value of money.—(See page 171.)

4. That so long as the interest of money is *established*, or is in public confidence considered to be so *prospectively*, at 3 per cent., property returning, or morally certain of returning 10 per cent. per annum, must *(cæteris paribus)* be always worth, for every £100 invested, at least £200, or a *premium* of £100.

5. That property which is always *convertible* into its *cost* and a *premium*, whether it be consols, railway stock, or a house, is to the owner available *capital;* as much so as if it were a bale of cotton, or a quarter of wheat, or gold and silver.—(See Section III.)

6. And, that the *expenditure* distributed in the cost of the materials and labour employed in the construction of such works is, besides. a proportionate addition to the *floating* capital, or *means* of those who received it.—(See Section XVII.)

into play, as we have endeavoured to shew, is the *natural*, and, therefore, the *best* moderator of such temporary excesses; whilst the attempt, through a violent action upon the money market, *arbitrarily* to correct them, must involve, in proportion to the severity of such a measure, the peril of the entire commercial and industrial system of the country.

In the original outline of our observations, it was contemplated to offer, as a still more practically illustrative appendage to them, a distinct and comprehensive plan for the exercise by the State of the power—which it was at the same time shown to hold—of most beneficially and seasonably stimulating some of the great and more essential departments of national industry, which, temporarily in some instances and for a longer period in others, have been under the greater and more peculiar depression. The plan referred to had especial reference to the industrial condition of *Ireland;* but included the *British Colonies* and the domestic *Agriculture:* the last subject, because of its intimate connection with a periodical export of bullion; but *more*, because of the *increased* necessity, in connection with measures adapted to promote the *general* employment of the population, that particular provision should at the same time be made, on *national* considerations purely, for a due proportion of such augmented industry being directed to the domestic increase of the *essential* productions of agriculture.

The plan, besides adequately *protecting* such advances, secured their profitable subserviency to the early *retrieval* of the *Public Revenue*, as a necessary consequence of the increased *employment*, *means* and *expenditure* thereby promoted amongst the population at large.

These collateral topics, however appropriate, we are for the present compelled, by the unexpected growth of our volume, to reserve to some future opportunity.

CONCLUSION.

If a *sufficient Currency* be the *last* and most essential *link* in that chain which connects the public prosperity with the primitive source—the *Land*, and with *Labour* as the industrial agency—of the national *wealth;** if an adequate currency—its relative quantity being the grand *limit*† to the *working capital* of the country—be the *spring* which *sets* and *keeps in motion* that general industry which multiplies the *quantity* and the *value* of the national property; if Commerce droops from the effects of the rude‡ withdrawal of what was as essential to its prosperity as the foundation is to the superstructure, or as the arterial circulation is to the animal economy; if the country *cannot* revive until such *circulation* be restored to that confidence of health which only its *regularity* can inspire; if it be in the power of the parent *Legislature*—not to create *gold* and *silver*, but to provide that which is the *prime mover* to that general *industry* which *does* and alone *can* create even gold and silver (although such be the *least* considerable portion of the country's wealth); to provide and ensure—in terms of the sage maxim adopted as the *motto* of our subject—"*that a price be fixed on the use of money*, such price being *very inconsiderable*," or *moderate*;—if the price proposed to be fixed be the *average* price of the *most precious* gold currency; if the plan proposed secures to those who prefer it, even as much *gold* as, under the same circumstances, the *existing* currency would allow them; if, therefore, what has been suggested, whilst it can be the occasion of injustice to *none*, must become *immediately* the instrument of benefit to *all classes* of the community:—for *who* would stay his hand from the

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* See pp. 128 and 129. † See page 242. ‡ See page 34.

usual enterprises of industry and commerce a moment after the establishment of confidence in only *one* essential element of commercial calculation—*the certainty of a moderate value of money?* and—if *delays are dangerous;—why not*—when so many *irrelevant,* not to say *hostile,* measures have been both *proposed,* and *tried for so long a period, and have all so fatally failed;—why* not, we may enquire, try *now* an experiment of *benign, auspicious* and *healing* effect? not—by any means—the plan *herein* proposed, if another be preferred; but *any plan whatsoever,* which shall as effectually provide for—*all* that we must maintain to be *essential,* and which we humbly *propose,*—

AS A COMMON PRINCIPLE OF UNION AMONGST THE PROMOTERS OF AN EQUITABLE ADJUSTMENT OF THE CURRENCY,—

namely, *the Public Security for a Permanently Moderate (in modification of a system which capriciously demands and upholds a usurious and blighting) Value of Money.*

FINIS.

APPENDIX.

PROPOSITIONS

FOR A

PUBLIC ACT RELATING TO THE ISSUES OF THE BANK OF ENGLAND

AND TO

A NATIONAL CURRENCY.

PREAMBLE.

WHEREAS, it is expedient to remedy the present state of the law in regard to the *Issues* of the *Bank* of *England* and to the *Currency*,—with a view to the establishment of a *National* Currency upon a permanent and equitable basis; to the erection of an immutable Standard of Value for money and for property in general; to the maintenance undisturbed of the convertibility both of the National *Currency* into *Coin*, and of *Property* and *Labour* into *Money*; to the protection of the national capital from arbitrary dissipation, and the national industry from arbitrary interruption, through the heretofore frequent inadequacy of the currency to sustain that commerce of which it is the foundation and limit;—(see p. 242.)

It is proposed:—

The re-Constitution of the Bank of England.

1.—That there be instituted, and put into operation, through the agency of the present Issue Department of the Bank of England, a National Bank of Issue, (see page 186) under a Board of Currency to be constituted with sub-Commissioners of management.—(See page 204.)

The Standard of Value for the Currency and for Property in general.

2.—That the *interest* value of the present gold currency, taking the average rate of discount at the Bank of England in connection with the average rate of interest upon loans on the best securities, during the period between the years

1820 and 1846 inclusive, be adopted and fixed as an immutable standard of value with regard equally to the currency itself, and to all property the value of which depends upon the rate of its return: so as that the currency being permanently maintained at such fixed interest value with reference to the highest class of annuities, as 3 per cent. consols, shall be rendered alike incapable of appreciation or of depreciation in regard to its money value or purchasing power; and so as that such standard may admit also of the money value of property in general being determined, absolutely and invariably, by the *fact* or the *probability*, as the case may be, of its returning one, five, ten, or more per cent. per annum: that is, that the standard rate of interest upon the national currency being 3 per cent. per annum, £100 of such currency may be always equal to £100 of 3 per cent consols, and the same with regard to other property which may yield, with equal certainty, 3 per cent. per annum.—(See pp. 181—186.)

The National Currency to be maintained of the permanent value of 3 per Cent. per Annum, by limiting the Issue to the general demand at such rate only.

3.—And whereas, it would be in the power of a National Bank of Issue, having control over the principal circulation of the kingdom, to depreciate or appreciate the national currency indefinitely, by simply varying the amount of currency issued; and whereas, it would, for the same reason, be in the power of a National Bank of Issue, of such magnitude, by limiting its issues to such an amount only as the public may choose to take from it at the rate, for interest, of three per cent. per annum, to preserve the currency permanently of the value of three per cent. per annum;—That from and after the date of this Act, the national currency shall be practically and permanently maintained of such value of 3 per cent. per annum,* by so limiting the issues to the general demand, at the interest of 3 per cent. per annum: except as hereinafter mentioned, and provided nothing herein shall be construed to restrict the borrowers on such defined securities from sub-lending on similar as well as on other varieties of securities, at another and at any other rate of interest which the sub-borrowers again from them may consent to pay.—(See pp. 184—186.)

The Issue of Notes under £5 provided for.

4.—That, for the purpose of more effectually carrying out the objects herein specified, it shall be lawful for such National Bank to issue Notes of a lower denomination than £5; but to such extent only (of such lower denomination) as shall be hereafter prescribed and determined.—(See page 188.)

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* That is, provided such be found to be as nearly as possible the actual average interest value of the *present* currency.

The Issue of the National Currency at any other rate than 3 per cent. per annum, prohibited.

5.—That it shall be unlawful for any officer, agent, or representative of such National Bank to issue at any time, on any pretence or for any purpose whatsoever, on pain of penalties, the nature and degree of which to be hereafter defined, to issue to any person or persons whomsoever, any Bank note or notes at any *lower* or at any *higher* rate of interest than *three per cent.* per annum; to be paid to the Bank by the party borrowing or receiving such notes for a longer or shorter period, excepting only as hereinafter provided. And also that it shall be unlawful, under penalties to be afterwards specified and described, for any officer or agent of such Bank at any time to refuse to issue to any person or persons whomsoever, complying with the provisions of this statute, who shall make application for such Bank notes, to any amount to which he or they may at the time of such application tender in exchange the proper securities and the aforesaid rate of interest for such loan.—(See page 187.)

The Basis and Security for the Issues.

6.—That the securities on which the National Currency be authorised to Issue be the deposit of 3 per cent. consols, or other Government securities reduced to 3 per cents., with gold and silver coin and bullion (see page 188); that the National Guarantee shall be attached to each note of the National Currency so issued, as effectually as if the said currency formed part and parcel of the Public Debt of Great Britain: such national guarantee having respect equally to the *security* of such notes, and to the responsibility for their being *maintained constantly* of the interest value of 3 per cent. per annum.—(See page 188.)

The National Currency to be Legal Tender.

7.—That, from and after the date of the operation of this Act, the proposed National Currency shall be *legal tender*, in all payments throughout England and Wales, for the value expressed in each note of such National Issues; and also that the purchase-money in all contracts, the quotations of all market prices current, the sources and disbursements of the public revenue within the realm, shall be deemed to have, and shall have reference to such proposed National Currency: provided that all debts, contracts, or promises of payment owing at or before the above-named date, *just as would have been the case before the enactment of this statute*, be deemed to have, and have reference to *gold*.—(See page 202.)

The National Bank shall be required to accumulate Gold and Silver for National objects, and shall not, after the manner of existing banks, discourage its increase.

8.—That whereas there does not at present exist within the Realm any Bank or Institution charged to secure and accumulate coin and bullion, when abundant, for nationally commercial purposes, (notwithstanding that such coin and bullion are held to be the basis of the currency,) except in so far as such Banks and institutions may, for their private advantage solely, find it convenient to promote such accumulation; and whereas it is not for the private advantage of such Banks and institutions to encourage such accumulation beyond a limited extent only, although the public advantage would be promoted by such accumulation, as being an indispensable provision against the periodical foreign demand (see page 190) for such coin and bullion for export; that the proposed National Bank and its Branches, for the public objects before specified solely, shall be required to receive such coin and bullion, at the market price thereof, in exchange for the National Currency and without charge for interest, so as to maintain such coin of the interest value of 3 per cent. per annum, equally as the notes of such National Bank.—(See page 188.)

The influx of Bullion to be hereafter promoted, not by a general depreciation of domestic Property, but by the action of the Course of Exchange on England.

9.—And whereas, the periodical depreciation of the total property of the kingdom by 20 to 40 per cent., in order to induce the return of a few millions of bullion, is an evil to be avoided; and whereas, the same result, namely, the reflux of bullion, may be equally promoted without such depreciation, through the action of the foreign exchanges in connection with a free price of bullion: —That the sterling Bill on England, wheresoever drawn, shall be deemed hereafter to represent the national currency to the amount specified in such Bill of Exchange; so that the seller and buyer abroad of such Bill on England may, in the price or premium of Exchange at which such Bill may be sold, be able to allow for any difference which may, from time to time, be publicly quoted by the National Bank in the price of bullion; and so that the price or premium of such Bill in England, when sold abroad, may be governed not only, as now, by the amount of such Bills offering for sale, but also further by their being at the time of sale of so much greater or less value than coin. —(See page 161.)

The National Bank to be obliged always to Redeem its Notes, on demand, in gold or silver, at the market price.

10.—That, in order to maintain the constant convertibility of such National Currency into gold and silver, the proposed National Bank of Issue shall be

and is required to redeem such notes in gold or silver, at the market price, on presentation thereof for such purpose.—(See page 203.)

The principle on which the National Bank is to Regulate the Prices of Gold and Silver.

11.—That the National Bank, in virtue of its right as the great *depository*, and as beyond all comparison *the largest holder*, of gold and silver, be invested with the office of regulating the market prices of the precious metals; and that the principle on which the prices of gold and silver shall be so adjusted and fixed from time to time, shall be solely and with no other object than, first, to maintain the value thereof at *par* with the National Currency so long and with as little variation as shall be possible, and in so far as this first object shall be compatible with the second object, of maintaining in the possession of such Bank, a given average stock of coin and bullion for nationally commercial purposes.

The par Prices of Gold and Silver and the Scale of variation.

12.—That so long as the stock of gold and silver coin and bullion in the aforesaid National Bank shall remain above 11 millions, and under 15 millions sterling (see page 196), the price of gold in the National Currency shall remain at and after the rate of £3 17s. 10½d. per ounce, which shall be reckoned the domestic *par:* constituting £100 of the National Currency, £100 of 3 per cent. Consols, and 100 sovereigns of the present standard, respectively of equal value. And whenever such aggregate stock of coin and bullion shall rise or fall by any amount above or below the before specified average quantity, the price of gold shall augment or diminish according to a scale to be adjusted (see page 197); so as that £100 of the National Currency and £100 of 3 per cent. Consols shall *always* remain of equal value the one to the other, but shall each be worth in *gold*, as the price of the latter may rise or fall, one, two, or more per cent. less or more than 100 sovereigns; and so as that no depreciation or enhancement of general property, valued in the National Currency, shall arise from any variation in the price of bullion; but that the fluctuations heretofore occurring in the value of property, through the alternate ebb and flow of gold and silver into and from the country, may hereafter be transferred and restricted solely to the prices of *bullion;* leaving the property of the country in consols, merchandise, or labour, to find their regular and natural value under the law of Supply and Demand solely.—(See pp. 215 and 216.)

It shall not be lawful for the Bank to raise the rate of interest, but there shall be a revision thereof, when gold and silver shall have increased beyond a sufficient amount, and when such increased amount shall have remained beyond a given period.

13.—And whereas, it is held to be the spirit and foundation of this Act that

the interest of money employed in industry is one most material item in the charges which go to swell the cost to the consumer of the products of the national industry; that every reduction of such interest goes in reduction of such cost; and that every reduction of the cost of articles in consumption goes to increase such consumption; that every increase of such consumption is an additional demand for labour, an additional proof of the comfort of the labourer, as well as of the prosperity of the producer and trader, and equally augments the sources of the public revenue and of the national wealth;—That it shall be unlawful,—for any purpose or pretence whatsoever and at any time hereafter, to raise the rate of interest at the aforesaid National Bank above the before-named fixed rate of 3 per cent. per annum for loans on the securities before mentioned: yet it shall be lawful for, and it is hereby provided that, the Legislature, when it may be necessary so to do, shall hereafter *revise* such 3 per cent. rate of interest, with a view to a convenient and just reduction thereof: provided that such revision of the rate of interest shall not take place until the gold and silver coin and bullion in possession of the National Bank shall have increased in amount so as to be equal, during a given period, to (say) *two-thirds* (or more*) of the *total* amount of the currency issued from such National Bank; when it shall be lawful and in accordance with the principle of this statute, to enter upon the revision of the rate of interest, with a view to such convenient, safe, and equitable reduction thereof as the public welfare may require.

The National System of Currency to be extended to the Colonies.

14.—And whereas, it is expedient, for the purpose of more steadily advancing the agricultural, commercial, and social prosperity of the British Colonial Empire, to extend to the Colonies of Great Britain the advantages of a secure, equable, and adequate currency;—It is hereby enacted that the Governors respectively of such British Colonies, in co-operation with the Board of Commissioners aforesaid, shall be required to bring before each Colonial Legislature the National system of Currency contained in the several provisions of this Act: provided that the permanent rate of interest to be fixed for each Colony respectively shall be the just and average value of money in each of such Colonies for a given sufficient term of years, or as near thereto as the Legislature of each Colony shall deem fit and proper; and that nothing herein contained shall be construed to authorise an arbitrary infringement of the privileges of issuing notes at present enjoyed by any Bank or Banks of Issue in the said Colonies.

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* The intention of this clause is,—on the assumption of the possibility, through the increased productiveness of the mines of Russia and other countries, of the future average interest value of *coin* being lower than of late years it has been,—that in such event the interest value of the proposed National Currency may be assimilated thereto, just as the interest value of the *present* currency would be, under the same circumstances.

The Revenue derived by the National Bank to be applied, first and mainly, to promoting, for the public convenience, the greatest amount of efficiency and security in every department of the proposed National Bank and its Branches.

15.—That, although it be contrary to the spirit of this Act that the public convenience and security, in so important a branch of social economy as that of Currency and Banking, should ever be endangered in order to preserve the Public Revenue from a necessary additional burthen; yet inasmuch as the revenue of the aforesaid National Bank, derived from the rate of interest charged upon its issues, must exceed the expenditure in maintaining such National Bank;—It shall be held unlawful to make any application of the profits of such National Bank to the public service until the revenue of such National Bank shall be found inapplicable, first and mainly, to promoting the public convenience by securing any greater amount of efficiency and security in any department of the aforesaid National System of Currency, and in the due promotion of Banking accommodation in necessitous districts.—(See pp. 208—211.)

Compensation to be proposed to existing Banks of Issue for relinquishing their privileges for the remaining period of their Charters.

16.—That the Commissioners to be appointed for carrying into effect the provisions of this statute, be authorised to propose to existing Banks of Issue which shall consent to relinquish, during the remaining term of their charters, their privileges of Issuing notes, an amount of compensation which shall be satisfactory to such banks, and in accordance with the powers to be granted to the aforesaid Board of Currency for such purpose.—(See page 207.)

The National System of Currency to come into operation on the first convenient day after concluding the terms for the transfer of the Issue Department of the Bank of England.

17.—That, on the first convenient day after the Commissioners shall have agreed with the Governor and Company of the Bank of England for the transfer of the privileges of its Issue Department, the Commissioners having otherwise completed all preliminary preparations, and due notice thereof having been given to the public, the National Bank of Issue shall commence its functions under this statute.—(See section XXXIII.)

The Constitution of the Board of Currency for carrying into effect these provisions.

18. And whereas it is expedient, for the due and efficient execution of the several provisions of this Act, that a Board of Currency be constituted, with sub-commissioners for the management of the National Bank of Issue;—It is

hereby enacted, that the said Board of Currency shall consist of the *First Lord of the Treasury*, the *Chancellor of the Exchequer*, and the *President of the Board of Trade, ex-officio;* with *six* additional Commissioners, being *Members* of the *House of Commons*, appointed by the Crown in consideration of their known experience in Commerce or Banking, or both, and being otherwise qualified to act; that the powers and duties of the said Board be limited and defined by law (See pp. 204—212); and that the said Board, immediately after its constitution, proceed to prepare a *plan* for the *institution*, *management* and *maintenance* of the said National Bank of Issue, and of the *form* and *inscription* of the proposed National currency, in accordance with the several provisions of this Act; which plan, on receiving the assent of Parliament, shall forthwith and accordingly be put into operation.

Any supposable future circumstances of the Banking Department of the Bank of England shall not affect the responsibility and efficiency of the National Bank of Issue.

19. And whereas, it is expedient to provide for the Permanent Value and Efficiency of the National Currency, in any supposable contingency which might at any time hereafter affect the commercial responsibility of the Banking Department of the Bank of England;—It is hereby enacted and declared that the aforesaid National Bank of Issue shall be constituted so entirely distinct in all its functions and responsibilities from those of the Banking Department of the Bank of England; as that the possible event of any reverse in the condition of the latter shall in no way affect the position or interrupt the duties of the former;—but that the said Bank of Issue, in its whole constitution and responsibility, continuing all the while a *State* institution, the National Currency shall, under all circumstances, be preserved incapable of depreciation in value, or of arbitrary diminution in quantity.

ERRATA.

In page 55, 16th line, for "*constantly* changing hands," read "*annually* changing hands."
In note to page 72, for "the — August, 1847," read "the 26th of June, 1847."
In page 92, near the top, for "in earlier section," read "in *an* earlier section."
In page 116, 20th line, for "*In* the modification of," read "*The* modification of."
In page 117, near the top, for "mædial," read "medial."
In page 124, 16th line, for "Section IV." read "Section VI."
In page 134, omit the words "*it seems*," in the third line from the top."
In page 169, near the foot, for "statute of *Elizabeth*," read "statute of *William I.*"
In page 180, omit the word "*either*" in the first line.
In page 180, second line, for "*choose*" read "*chose.*"
In page 199, near the middle, for "a foreign *drain*" read "a foreign *demand.*'
In first note to page 237, for "see page 108," read "see page 105."

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